

MicroSave India Focus Note #143

Learnings from Transforming Villages into ‘Less-cash Villages’: Part One

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KEY FINDINGS

1. Onboarding key stakeholders and getting their buy-in on the digitisation plan
2. Gathering baseline data on pre-defined Key Performance Indicators (KPIs) to measure the impact of interventions
3. Offering diverse mobile and card-based digital payment solutions, and building acceptance infrastructure at merchant points

“Our dream is that there should be a cashless society. This is correct that 100% cashless society is never possible. But we can make a start with a less-cash society, then a cashless society will not be a far-off destination,” said Prime Minister Narendra Modi on 27 November 2016, in an episode of the *Mann Ki Baat* radio feature.

The Real, High Cost of Cash

As per a 2015 VISA study, India is among the most cash-intensive economies in the world with a cash-to-GDP ratio of 12%. With 97% of retail transactions carried out in cash, Indian consumers unequivocally prefer cash over digital options. Another study by MasterCard in the same year highlighted that the central bank and commercial banks in India annually spend around \$3.5 billion in currency operations costs. The net cost of cash is estimated to be 1.7% of India’s real GDP in 2014–15.

Studies conducted by *MicroSave* depict that consumers across India have an inclination to save in cash and make cash-payments for most transactions. In a nutshell, cash continues to rule in India and the cost of cash to the country remains significant.

Post-demonetisation in November 2016, various pieces of evidence suggest that there had been a significant increase in the number of digital transactions conducted using Unified Payments Interface (UPI) and Bharat Interface for Money (BHIM). Data from the Reserve Bank of India (RBI) shows that since the demonetisation exercise, digital transactions have been wavering without a clear uptrend. However, on an overall level, there has been an increase in the volume and value of transactions. The volume increased from 671.5 million transactions to 844.7 million between November 2016 and June 2017. At the same time, the value of transactions increased from INR 94 trillion (\$1.46 trillion) to INR 113.75 trillion (\$1.77 trillion). Both BHIM and UPI have also shown a steady increase in transactions since December 2016. This indicates that there has been an increase in meaningful awareness (and perhaps knowledge) of new-age digital payment solutions, such as BHIM, UPI, USSD and digital wallets.

MicroSave’s experience shows that one of the key aspects to extend banking services to the

last mile depends on the awareness created by service providers about banking products and accessibility of their channels. As per the Global Findex data (2014) from the World Bank, 47% of rural Indian households are still unbanked. This makes a strong case to increase awareness on Digital Financial Services (DFS) and drive the rural economy towards less-cash.

Context

In this context, *MicroSave* has been working with leading Public Sector Banks (PSBs) and their promoted Regional Rural Banks (RRBs) on an initiative to create a less-cash ecosystem in select villages across the country. The initiative is in collaboration with the National Payments Corporation of India (NPCI), and is a part of their ambitious “Digital Finance for Rural India: Creating Awareness and Access” project. NPCI’s project comes under the umbrella of *DigiDhan Abhiyan*, which aims to digitally enable villages across the country and encourage sustained village-level participation.

This series of India Focus Notes (IFN) captures the lessons learnt during the project and highlights the key steps involved in creating less-cash villages. This first IFN focuses on setting up the preliminary ‘access infrastructure’, which will enable digital transactions in villages.

Steps to Enable Villages for Digital Payment Solutions

A. Getting Buy-in from Key Stakeholders

As required in most interventions, it is essential to get the key stakeholders on board and get their buy-in. The initial discussions should clearly inform the stakeholders about the overall transformation plan, engagement plan of implementation agencies, benefits of going less-cash and support required from them. To make the intervention successful, complete agreement and support from key stakeholders is needed. These stakeholders include the Lead Bank Manager (LDM), the regional office of the lead bank, local bank branch managers and staff members. Other stakeholders are local governance bodies, such as Block Development Officer, Panchayat president and secretary, local civic bodies, key local influencers, potential merchants, and more importantly, end-users/villagers.

B. Obtaining and Analysing Baseline Data

Before planning any targeted intervention, it is imperative to understand local demographics and gather baseline data on pre-defined Key Performance Indicators (KPIs). To this effect, a dip-stick study should be conducted to understand aspects, which include the following:

- Financial awareness level of villagers
- Channels used to avail financial services
- Frequency of usage and transaction ticket size
- Medium of financial inflow and outflow
- Availability and accessibility of bank branches
- Penetration of bank accounts
- Usage pattern of banking services and channels
- Linkage of mobile number with account
- Seeding of *Aadhaar* number in bank account(s)
- Number of merchants/fixed price shops
- Issuance of debit cards and availability of ATMs
- Penetration of smartphones and feature phones

The data from the dip-stick study can then be analysed to ascertain various outcome. These include the type of inflow/outflow transactions that can be digitised and the type of card/phone based digital payment solutions that are likely to be adopted by the villagers. It is also helpful to gather data on the awareness and usage of digital channels, such as USSD, BHIM or UPI solutions. This can help in developing customised awareness campaigns. The baseline data can also be compared with the revised data at a later date to see the impact of interventions.

The accompanying graphic highlights the key enablers of digitising a village.

C. Making Data-driven, Informed Decisions

The baseline data helps to analyse the 'as-is' situation in the villages and plan activities to set up basic but essential elements for digitisation. For instance, opening bank accounts for non-account holders, seeding (correct) mobile and *Aadhaar* number in the bank account, onboarding merchants to facilitate digital payments, designing innovative marketing collaterals, and planning awareness campaigns to create a large impact.

D. Supporting Bank Branches

Customers will prefer to use different digital payment solutions depending on their availability, awareness and convenience of use. It is essential that the lead bank supports regional rural branches with additional manpower. It should also undertake initiatives to build staff capacity on digital payment solutions, besides offering them incentives to promote digital payments.

The regional offices of banks should ensure timely provisioning of Point-of-Sale (PoS) machines, *Aadhaar* Enabled Payment System (AEPS) enabled micro-ATMs, and other infrastructure support.



Basic Infrastructure

- Voice connectivity
- Data connectivity
- Power supply
- ATM



Prerequisites for Customers

- Bank account
- *Aadhaar* seeding
- Mobile phone
- Mobile number seeding
- Debit card
- Mobile banking application
- SMS banking
- USSD
- BHIM application
- Net banking facility



Prerequisites for Bank BCs

- Micro ATM (AEPS enabled)
- Operational training



Prerequisites for Merchants

- Current account
- mPOS/POS machine
- Operational training



Build-up Activities

- Mass-enrollment camps
- Financial awareness drives
- On-the-spot demonstrations
- Local, product champion
- Training the trainers
- Mobile van campaign
- Local mass media platforms
- Marketing collaterals

As the penetration of mobile phones, debit cards and *Aadhaar* seeding may vary among customers, the providers should plan to offer and promote diverse mobile and card based payment solutions.

[The next IFN of this series](#) builds on the ideas explored here and documents the set of activities required to create a less-cash ecosystem.