SATTVA
Delivering High Impact.

PATHWAYS FOR PHILANTHROPY

ENABLING FINANCIAL INCLUSION THROUGH DIGITAL PLATFORMS

FEBRUARY 3, 2022

ABOUT THE ROUND TABLE

Sattva brought together philanthropy, not-for-profit, private sector leaders and industry experts for a round table conversation on **Enabling Financial Inclusion through Digital Platforms** on 3rd February 2022. The discussion centred around identifying critical challenges in the digital financial inclusion ecosystem and clearly defined pathways for philanthropy to address those challenges.

While India has made remarkable growth in the digital financial inclusion sector, pockets of the population are yet to reap the benefits of products in the space. Roughly 190 million Indian adults don't have access to bank accounts; urban and rural poor have no access to any financial safety nets, especially during times of crisis. Overall, very few Indians - only 14.1% in rural areas and 19.1% in urban areas - have any form of health coverage. Of a 600+ million population of women, ~50% were excluded from the Jan Dhan cash transfer scheme. 50% of the women in India make only limited use of their bank accounts. A majority of MSMEs lack access to formal financial credit, with only $250 billion (out of an estimated market of $600 billion) being served by the current formal lending market.

Digital Transactions	Bank Accounts	Direct Benefit Transfer
5,554 Crore Digital payment transactions took place in FY 2020-21	**87.23%** Current and Savings Account seeded with Aadhaar Number	**17.4 Lakh Crore** Total Direct Benefit Transfer
76.55 Crore Total PFMS transactions in 2021-22	**81.04%** Current and Savings Account seeded with Mobile Number	**33.92 Crore** Direct Benefit Transactions in FY 2020-21
100+ Crore Total e-invoices till Nov 2021	**10.24+ Crore** Digital applications received for government services	**4.98+ Lakh** PoS enabled Fair Price Shop

Figure 1: Growth of digital financial services in India

Through systematic and focussed engagement with expert ecosystem stakeholders, closed-door roundtables identify critical areas for intervention and actionable next steps for philanthropic organisations in the social sector. The round table at Sattva brought together a diverse set of experts, representing **Fintech Solution Providers**, **Domain Experts/Academics**, **Platform Experts**, **CSR Funders** and **Government** players.

The panellists explored digital innovation models in delivering financial services and the role of governments, philanthropists and solution providers in the market. The discussion concluded with a synthesis of actionable recommendations and insights for the ecosystem. This roundtable and report are the beginning of a multi-stakeholder collaborative action towards driving these outcomes.

KEY INSIGHTS FROM THE ROUND TABLE

Digital financial products require experiential learning over and above literacy.

Despite the development of platforms and digital public goods, there is a selective adoption of platform services amongst customers, especially rural populations. While internet subscribers in rural India account for about 38% of all internet users, the internet is predominantly used for informal and entertainment purposes.

Additionally, the economy is primarily cash-based and informal and there is low usage of digital financial platforms for transactions. 72% of India's consumer transactions occur in cash; most salaries and payments are in cash. As the population is still far from homogenous in terms of access and adoption, there is disproportionate usage of the available products and services.

> PUBLIC GOODS ARE IN PLACE, BUT CHALLENGES AND BARRIERS REMAIN. INDIA IS A LARGELY CASH-BASED ECONOMY. HENCE, THERE IS A NEED FOR THE POPULATION TO BE MADE DIGITALLY AWARE.
>
> **RAMAN TANEJA, ARTH DIGITAL**

It is vital to provide users with a hands-on experience of digital technology and financial execution. When knowledge of digital financial products and platforms is merely imparted, often not practised, there is very little call-back of information and association with the product.

Only when digital experiences are combined with physical assistance, there is seamless absorption of the digital financial service.

Trust and confidence-building in the product and utilisation of the same is greatly enhanced in the presence of an aide to interpret and handhold the user through the stages of product usage. A scale-up of human resources to provide *phygital* support is necessary.

While India is the largest spender on financial inclusion amongst the South Asian countries, namely Afghanistan, Bangladesh, Bhutan, Nepal, Pakistan and Sri Lanka, there is an increasing necessity to build the longevity and sustainability of digital financial inclusion practices. Streamlined funding and investment in literacy through CSRs and other philanthropic organisations can lead to better long-term effects on the customer ecosystem and higher platform adoption. Implementation of a platform thinking approach at this stage is pivotal.

Philanthropists should look beyond foundational education programmes to provide digital and financial literacy for the digitally inactive, by installing an experiential model of learning. Provision of catalytic capital to develop such programmes, where users can learn by using the proposed products hands-on - can take consumers a step closer to financial viability.

> PRODUCT LITERACY, COMBINED WITH EXPERIENTIAL LITERACY, ESPECIALLY IN SAVINGS & INSURANCE CAN BE DELIVERED THROUGH PHILANTHROPIC SUPPORT. ENSURING HANDHOLDING IN THE DIGITAL FINANCIAL INCLUSION OF CUSTOMERS IS A ROLE THAT CAN BE EFFECTIVELY PLAYED BY PHILANTHROPY.
>
> **NISHANT KUMAR, LAKSHYA FINANCIAL SERVICES**

Long-term provision of digital infrastructure to display the value addition of using such products would be helpful to digitally inactive users. These users would have to be on-boarded gradually in a staggered or phased manner. This entails introducing basic applications not requiring internet and advanced skills (such as *99#), eventually followed by advanced services such as net banking and UPI. For financially active users, building trust to increase current levels of digital activity would be the next step for intervention. Literacy interventions for financially sporadic users could focus on promoting sustainability of financial activity through onboarding onto the Account Aggregator platform which in turn displays the ease with which credit may be obtained through adoption of digital financial practices.

There must be a creation of use cases to create trust and build experience in digital finance.

There is a need to focus on utilising existing products in an optimal manner. Incentive-based product usage and adoption is a use case that philanthropy can build to propel and push digital financial adoption; thus, providing a short-term return to digital financial adoption. Stakeholders should focus on building multiple use cases for consumers beyond the smartphone user community as well. Building use cases customised to specific user groups could ensure a maximum return on adoption rate. The biggest use case opportunity lies in the area of credit; if the demand for credit is actively leveraged, there can be numerous use cases created for the same.

> SHOULD ALL CUSTOMERS HAVE A SMARTPHONE OR CAN SOMEONE WITH JUST AN AADHAAR CARD & FEATURE PHONE BE INCLUDED IN THE DIGITAL ECONOMY? ARE ENOUGH USE CASES BEING DEVELOPED FOR USERS BEYOND THE SMARTPHONE COMMUNITY?
>
> GAURAV CHAKRAVERTY, GRAMEEN FOUNDATION INDIA

Investment in the creation of use cases requires innovation and patient capital from philanthropic organisations.

Philanthropy possesses the ability to experiment generously with capital while conducting pilots for financial products. The resources can be used for building environments that encourage stakeholders, especially women and other underrepresented social groups, to use financial products and feel comfortable while using the same.

> PHILANTHROPY CAN TAKE ONE OF TWO ROUTES:TRAIN LARGE COMMUNITIES TO BE FINANCIALLY AWARE & ACTIVE; OR FOCUS ON ENSURING THE BEST RETURN ON INVESTED SOCIAL CAPITAL, PARTNER WITH PLAYERS WHO HAVE THE RIGHT MINDSET & CAN CO-CREATE PRODUCTS & SOLUTIONS WITH THEM OR BACK THEM THESE FINTECH PLAYERS WITH SOCIAL FINANCIAL CONSTRUCT TO EMPOWER THEIR SOLUTIONS.
>
> SRIRAM SHANKAR, FINDEED

One key area is the investment in innovation, coupled with testing digital financial products such as digital credit provision, online savings instruments, net banking account access, digital health and agri-insurance, and digital payments and remittances. These digital financial products could be tested among user groups who are least likely to get access to such services, circulating pilots amongst diverse socioeconomic groups to gauge receptivity and feedback.

Bundling/combining of different financial services in one product can enhance the financial health of individuals in rural communities.

Populations in rural areas are often removed from digital financial platform solutions. It can be argued that they are the very last to obtain these products and solutions owing to the often-lacking infrastructural and literacy capabilities. The demand to use these solutions is also relatively lower. Hence it is important to ensure that when these solutions do ultimately reach these populations, the solution is multidimensional and serves numerous purposes.

A platform approach that integrates numerous products is effective. Stapling and bundling of numerous digital financial products will increase penetration.

The value addition of each product could be exponentially increased by bundling it with other financial services. This enables adoption of multiple financial services through a single product. An example could be providing lower rates of interest on credit for consistent digital transactions.

> A CREDIT-INSURANCE-PAYMENT COMBINED PRODUCT IS A FAR MORE POWERFUL TOOL THAN ANY ONE STANDALONE SERVICE. HENCE, A PLATFORM APPROACH THAT INTEGRATES NUMEROUS PRODUCTS IS MUCH MORE EFFECTIVE, BUT IT ALSO REQUIRES FAR MORE INVESTMENT AND GREATER PATIENT CAPITAL.
>
> MANISH THAKKAR,
> AVANTI FINANCE

Philanthropic organisations could offer capital to ensure innovation towards a comprehensive curriculum that covers financial health and wellness and key aspects of financial literacy, looking beyond banking, payments and savings. This model could be adapted for specific levels by offering relevant service offerings to each, slowly moving towards complex products like insurance, lending, and wealth management. Capacity building, combined with access to finance and access to market is an effective template of offerings for a bundled product.

To ensure return on social capital for investors, there can be a focus on co-creating bundled product solutions with existing fintech players. Alternatively, for a less hands-on approach, philanthropies can provide social financial capital to accelerate the product creation process and maximise impact. Philanthropic organisations can empower fintech solution providers and platform innovators to construct a platform that integrates multiple financial products.

> THERE IS NO SINGULAR DIGITAL PLATFORM THAT CAN SOLVE ALL ISSUES - DATA PROTECTION, EMPOWERMENT, ETC NEED TO BE INCLUDED IN THE PURVIEW OF DIGITAL FINANCIAL INCLUSION, IN AN OPEN SYSTEM INTERCONNECTION (OSI) MODEL. WE ARE CURRENTLY FOCUSED ON THE PLATFORM, INFRASTRUCTURE, PROTOCOL LAYER BUT NOT ENOUGH ON BUILDING APPLICATIONS.
>
> **SHAILESH DIXIT, GROMOR**

Ensuring direct delivery of digital financial products from bank to community is necessary for wider adoption.

Financial inclusion programmes should move their focus from the acquisition of the user to ensuring a smooth user experience. Through insights that emerged over the landscape study, users with varying levels of digital and financial literacy were identified. While these levels serve as a helpful benchmark, the onus of graduating from one step of digital and financial access to the next should not fall upon the customer.

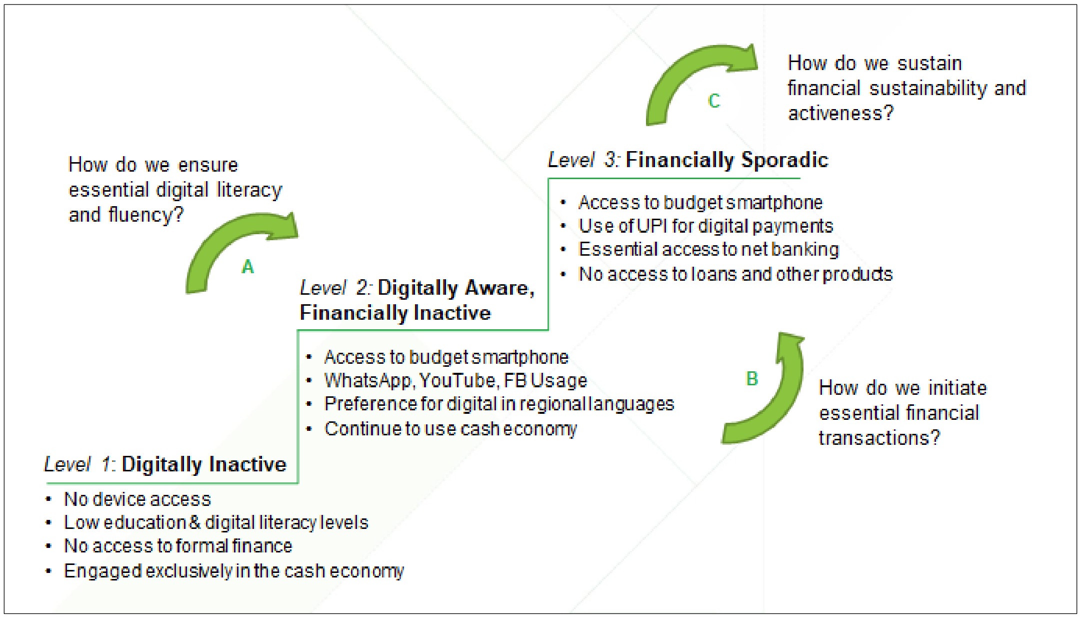

Figure 2: Types of users categorised by digital literacy and activity

> THE ONUS ON BECOMING DIGITAL LITERATE IS NOT ONLY ON THE CUSTOMER. GIVEN THAT THERE IS A GAP IN DIGITAL LITERACY AND CAPABILITIES, INNOVATION HAS TO HAPPEN IN THE LAST MILE ENSURING ASSISTED ACTION. WHILE FINANCIAL INCLUSION PROGRAMMES AND OUTREACH OFTEN FOCUS ON ACQUISITION OF THE USER, A SMOOTH, ACCESSIBLE, AND EASY USER EXPERIENCE IS GREATLY IMPORTANT AS WELL.
>
> **BENI CHUGH, DVARA RESEARCH**

There are numerous gaps with the definitions of user personas, as well as the acquisition centric approach of financial inclusion programmes in general. A primary gap that emerged was that the onus of graduating to the next step of the ladder is seemingly on the customer. Panellists suggested that this shift should instead be enabled by the philanthropists, who possess the access to resources required to execute the same. The inherent bias of CSRs and philanthropies which often leans toward customer acquisition, rather than customer enablement, was also highlighted.

The requirements and abilities of a community are best understood by those closest to the population. Hence, even product innovation requires development at a local capacity. Owing to the fact that hyper-local problems require hyper-local solutions, this requirement is amplified even further. Incorporating modes of financial interaction that are simple and easy to use at the community level leads to higher rates of adoption and penetration within societies as well.

Local communities should be leveraged to deliver digital finance to the members.

An effective manner of ensuring that financial services reach the last mile, community members and organisations, is to utilise local existing networks in the delivery of digital finance. Building community institutions and assets that provide last-mile service delivery is linked to specific use-cases. For example, in the realm of agriculture, this could mean building institutions at the block/district level enabling digitisation of payments, crop insurance, facilitation of agri-infrastructure funds, etc.

An effective mode of funding for the same is in an incubation mode, positioning the investment in a long-term view so it can once be a standalone social business owned by a social organisation, or decentralised with local entrepreneurs taking the helm.

> DESIGN AND DELIVERY OF DIGITAL FINANCIAL PRODUCTS HAS TO BE DONE AT A HYPER LOCAL LEVEL FOR RURAL USERS.
>
> **SUKETU KUMAR, ICICI FOUNDATION**

Philanthropy should not indulge in fraud and chargeback corrections in the digital platform ecosystem.

The Reserve Bank of India (RBI) has recognized that there are numerous cases of frauds in UPI, with multiple cases of 'misuse' of the 'collect request' feature of UPI. While fraud is a critical challenge in the digital financial platform service sector, it is imperative that investors, namely philanthropies, do not enter the ecosystem to correct the same.

> UPI FRAUDS, CHARGEBACKS, A HUGE PROBLEM (ALMOST INR 200 CRORE A MONTH); THIS IS A DISTORTION IN THE DIGITAL PLATFORM ECOSYSTEM. HOWEVER, THERE IS NO ECONOMIC INCENTIVE TO ENSURE THE CHARGEBACKS. PHILANTHROPY SHOULD NOT GO INTO TO CORRECT THIS DISTORTION AS IT IS NOT A PROGRAMME WHICH IS TIMEBOXED, WITH A SPECIFIC SET OF HYPOTHESES.
>
> **SHAILESH DIXIT,GROMOR**

In order to identify fraudulent and suspicious activity, there is a requirement for a specialised team of engineers and analysts who can spot this and who will work exclusively on fraud identification. There is a call for institutional mechanisms to address problems like fraud and chargebacks. Philanthropy cannot step in for institutional bodies and fundamentally alter existing frameworks, hence it is better to move away from resolving such issues. Retained focus on literacy, last-mile access, capacity building, awareness, knowledge, etc through bundling and building triads of products and services is an effective utilisation of financial resources.

WAY FORWARD

Convergence and collaboration across funding channels, solution innovation, implementation and the consumer chain has emerged as an area of importance. While digital financial inclusion is already being viewed from a platform approach by the government and various innovators in the space, the immediate next step is to bridge the gap between the consumer and the platform, to ensure higher and seamless usage of platform solutions. The fortification of the building blocks of digital platform access can be followed by a greater focus on innovative digital platform approaches.

Going forward, philanthropists, solution providers and implementation partners alike, can consider engaging in ecosystem advocacy, knowledge creation and collaboration in digital financial inclusion. There are numerous pathways for philanthropies that emerge from this roundtable. Investment in creation of use cases and generous utilisation of experiment capital, streamlined funding and investment in literacy and promotion of *phygital* practices, backing existing fintech solution providers to innovate and create unique digital financial products and pushing for platform solutions which combine and scale numerous financial services in one are some of the prominent actionables for funders. Philanthropies must strictly not venture into areas such as the correction of chargebacks and frauds in the ecosystem. Government institutions, in collaboration with leading foundations and corporate entities, can build standards for the use of open digital platforms by private and public players alike.

Sattva will continue to anchor forums for exchange of learnings and best practices, as well as collate and share the innovation and movements pertaining to digital transformations in the financial inclusion space. This roundtable has showcased that focused funding on increasing access and adoption of existing digital financial products is an important step towards enabling financial inclusion through digital platforms.

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ABOUT SATTVA

We are an organisation driven by the mission to end poverty in our lifetime. Our work focuses on scalable solutions for sustainable social impact. We work with our clients - corporations, philanthropists, foundations and social organisations - to achieve social impact goals effectively and maximise the social return on their investment. Deep understanding across sectors and collaboration with multiple stakeholders drive our work. This approach helps us and our clients develop holistic solutions for solving critical societal problems.

We offer end-to-end support covering:

- Research
- Strategy consulting
- Implementation support
- Programme design and management
- Monitoring and Evaluation
- Impact assessment
- Social audit
- Talent solutions
- Organisation development programmes
- Data and technology products and more as needed in our quest for better solutions.

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