



State of Digital
Financial
Services, Access
& Inclusion in
North East
India

Issue Brief by:

Council for Social and Digital Development (CSDD)

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INTRODUCTION

The North East India (NER) region has been historically underbanked, yet the cumulative advancements in digital technology have for the first time made it plausible to bridge over the challenges posed by lack of brick and mortar banking infrastructure with the digital equivalent.¹ In the previous decades, nationalization of banks, priority sector lending stipulations, the lead bank scheme, establishment of Regional Rural Banks, launch of Self-Help Groups-banks linkage programmes were all part of the Reserve Bank of India's initiative to provide financial access to the unbanked and under-banked masses. For the purpose of extending digital financial inclusion, the cumulative advancements in what has now come to be referred to as the *India Stack* provides the foundation of including the under-banked and un-banked population into the fold of formal financial economy. The gains in financial inclusion made possible by India Stack has found recognition worldwide, including from the International Monetary Fund.²

The India Stack which consists of identity rails (Aadhaar, e-KYC, e-Sign and Digilocker), payment rails (IMPS, UPI, RuPay, JanDhan, AEPS and APBS) and data sharing rails (Account Aggregators) is widening access to financial services at a lesser cost. Digital payments are often the first step towards financial inclusion, thereby also opening the gates to other financial services like savings, credit, and even investments and participation in the capital markets. With time, the India Stack is expected to have more layers in addition to the two fully functional layers, and the conceptualized third layer of sharing data with consent is currently underway.

However, there still exist asymmetries in access to financial services and products among the Indian population due to various factors, among them the geographical location of the individuals- much like the digital divide, financial inclusion follows an urban-rural divide as well as a regional divide.

The focus of this issue brief is the regional disparity in inclusion and access to digital financial services and products with specific reference to the eight North East Indian states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura. This report is based on a secondary literature review of news reports, research reports and publicly available datasets.

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<https://bfsi.economictimes.indiatimes.com/news/industry/digital-technology-should-reach-every-nook-and-corner-of-country-says-sitharaman/90131284>

² <https://www.imf.org/external/pubs/ft/fandd/2021/07/india-stack-financial-access-and-digital-inclusion.htm>

EMERGING DYNAMICS OF DIGITAL FINANCIAL INCLUSION AND NER

02

Role of Women's Self-Help Groups: The NERLP was implemented from 2012 till September, 2019. It was implemented in 1,645 villages under 58 development blocks across 11 districts of 4 States of Mizoram (Aizawl and Lunglei districts), Nagaland (Peren and Tuensang districts), Sikkim (South Sikkim and West Sikkim districts) and Tripura (West Tripura, North Tripura, Sepahijala, Khowai and Unakoti districts). The World Bank-funded project provided skill-based training to SHG members and unemployed youth for employment. This project helped introduce SHGs in parts of the northeast which did not have the presence of these groups. Deendayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) has since been engaged by the Ministry of Rural Development to provide doorstep financial services by Women Self Help Groups (SHG) members. These subsequent interventions have left a lasting legacy in that currently the region has 4460 women SHG members who have been working as Business Correspondents for doorstep banking.³ Led by India's Ministry for the Development of the North East Region (MDoNER) and the North East Council (NEC), plans are afoot to digitize transactions between farmers and their producer groups and producer organizations, creating a digital transaction trail that will increase transparency in the flow of funds through agricultural value chains in the region.

Payment Infrastructure Development Fund (PIDF): The Payment Infrastructure Development Fund (PIDF) is a fund set up by the Reserve Bank of India (RBI), in consultation with major authorized card networks, to facilitate the development of payment acceptance infrastructure in tier-3 to tier-6 cities and north-eastern states of India.⁴ In a major digital financial inclusion achievement under the PIDF, the FinTech platform PhonePe is reported to have expedited the digitization of merchants in the North Eastern region from a few thousand in 2020 to over 2 lakh in 2022.⁵

Branchless Banking: Branchless banking is the use of technology, such as mobile phones and bank cards, for the conduct of financial transactions electronically and remotely. The use of third-party resources as agents for the financial services provider allows customers to use financial services without going to bank branches. At present, there are several forms of branchless banking operational in India. The following are some of the types that have a presence in the North East India region:

- **Micro-ATMs (m-ATMs):** micro-ATMs are mobile devices for cash transactions supplanted in public spaces like corner stores, photocopy stores (much in the manner of PCO facility for telecom) in the region. The owner of these enterprises who are the facilitators of financial transactions in these arrangements is designated as Business Correspondent (BC). Deposit, Withdrawal, Fund Transfer and Balance enquiry are some of the financial transactions supported by the m-ATMs.

³ <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1911212>

⁴ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12009&Mode=0>

⁵ <https://bfsi.economicstimes.indiatimes.com/news/fintech/phonepe-digitises-80-lakh-merchants-under-rbi-pidf-scheme/93947734>

The m-ATM arrangements were initially introduced in the region to meet the needs of tea garden workers. It is estimated that at the time of demonetization in 2017, four lakh tea garden workers in Assam were forced to open a bank account for the first time. These workers, over 10 lakhs in total, faced a severe crisis in withdrawing their wages once their payments were made digitally due to the unavailability of ATMs or banks nearby. It became imperative to find innovative measures to extend fundamental banking services to the workers at a pace perhaps not supported by traditional brick-and-mortar banking infrastructure. PayPoint and Fino Payments Bank are some of the companies active in the region in this segment.^{6, 7}

- **Digital Banking Units:** In 2022, 75 Digital Banking Units in 75 districts across the nation were inaugurated. The number 75 was a nod to the 75th year of independence. Of these, the State Bank of India manages all three DBUs that are in the region - Baksa district of Assam, 9th Mile in the Ri-Bhoi district of Meghalaya and Kakching in the Kakching district of Manipur. The DBUs will operate in two modes of a 24/7 self-service zone, and a Digital Assistance Zone where customers can expect digital literacy assistance in a variety of financial products and services such as opening of savings accounts, balance-check, printing passbooks, transfer of funds, investment in fixed deposits, loan applications, stop-payment instructions for cheques issued, applications for credit and debit cards, tax and bill payment and nominations.
- **Digital Banks:** Digital banks, sometimes referred to as neo banks, are financial institutions that have no physical branches and offer banking services entirely online through their website and mobile banking app. Digital banks will be completely independent banks to be licensed under the Banking Regulation Act, of 1949 and they will follow the Reserve Bank norms on par with commercial banks. Digital banks are best suited to use new age techniques like predictive analyses and artificial intelligence (AI) to arrive at real-time decisions for time-busy MSMEs. These technologies allow banks to move from traditional funding methods based on collaterals to advanced cash flow lending.
- **Government e-Marketplace (GeM):** Buyers and sellers' participation in contract tenders and for public procurement was moved to the government-owned digital portal to make the process more transparent in an effort to reduce corruption. The process is already in execution but there is an acute need for buyers and sellers to be imparted the necessary training to be able to participate in the process. In regions with less than reliable and broadband-quality internet networks, many had not been able to foresee the increasing role of the internet and ICTs. Even as the government and public sector departments have been mandated to source goods and services for official use and consumption via the GeM portal, most locations within the region they have struggled to procure deliverables as traders and sellers have not registered on the portal and continue to scout for contracts the traditional way.

⁶ <https://arunachaltimes.in/index.php/2022/09/22/branchless-banking-points-expansion-in-north-east-by-fino-payments-bank/>

⁷ <https://thenewsmill.com/2021/06/paypoint-micro-atms-fill-banking-gap-northeast/>

- **Upgradation of banking infrastructure to accommodate modern technologies:** In the past rural banks and microfinance institutions have witnessed several crises. Microfinance refers to small ticket loan offerings made without mortgage or asset-backing. There have been rapid advancements in technology to allow better access to information and services for both the customer as well as financial service providers. Regional and cooperative banks in the region are upgrading to accommodate existing technological advancements with room for leveraging AI/ML capabilities for financial risk management to be able to hyper-personalise offerings.⁸
- **Embedded finance and NER:** The geographical reach of app-based online goods and services companies such as ride-hailing apps, food delivery, online shopping, etc. is also roughly the same which is seeing a paucity of cash and due to a shift to digital money. It was only a matter of time before these existing services apps were “embedded” with “finance” products and services. Embedded finance is the terminology for the rising trend of integrating financial services like lending, payment processing or insurance into nonfinancial businesses. It is expected that as the segment develops further, it will aid in financial inclusion by helping consolidate data points necessary to avail of cash-flow-based credit. However, we must note that the permeation of most app-based services companies operational in the rest of the country has been extremely slow in the region or still restricted to the larger urban centres in the region.
- **Open banking framework:** It has been observed that at present the open banking framework in the nation is guided by formulating a comprehensive framework for improving financial data sharing infrastructure.⁹ The need for a Public Credit Registry had long been felt in the nation and the Union Budget 2023 proposed that a National Financial Information Registry (NFIR) will be set up which will serve as a central repository of financial and ancillary information. NFIR's major purpose is to construct a public infrastructure for sharing credit-related, activity-related, and asset-related information with lending and other selective authorities. It is expected that the NFIR will aid in generating a credit history for the previously unbanked and under-banked individuals and organisations which could be leveraged by them to apply for loans and avail of other financial services. If implemented, it has the potential of leveraging financial data and history to apply for credit accessible to people who have not benefitted from credit bureaus like CIBIL, and Account Aggregators.

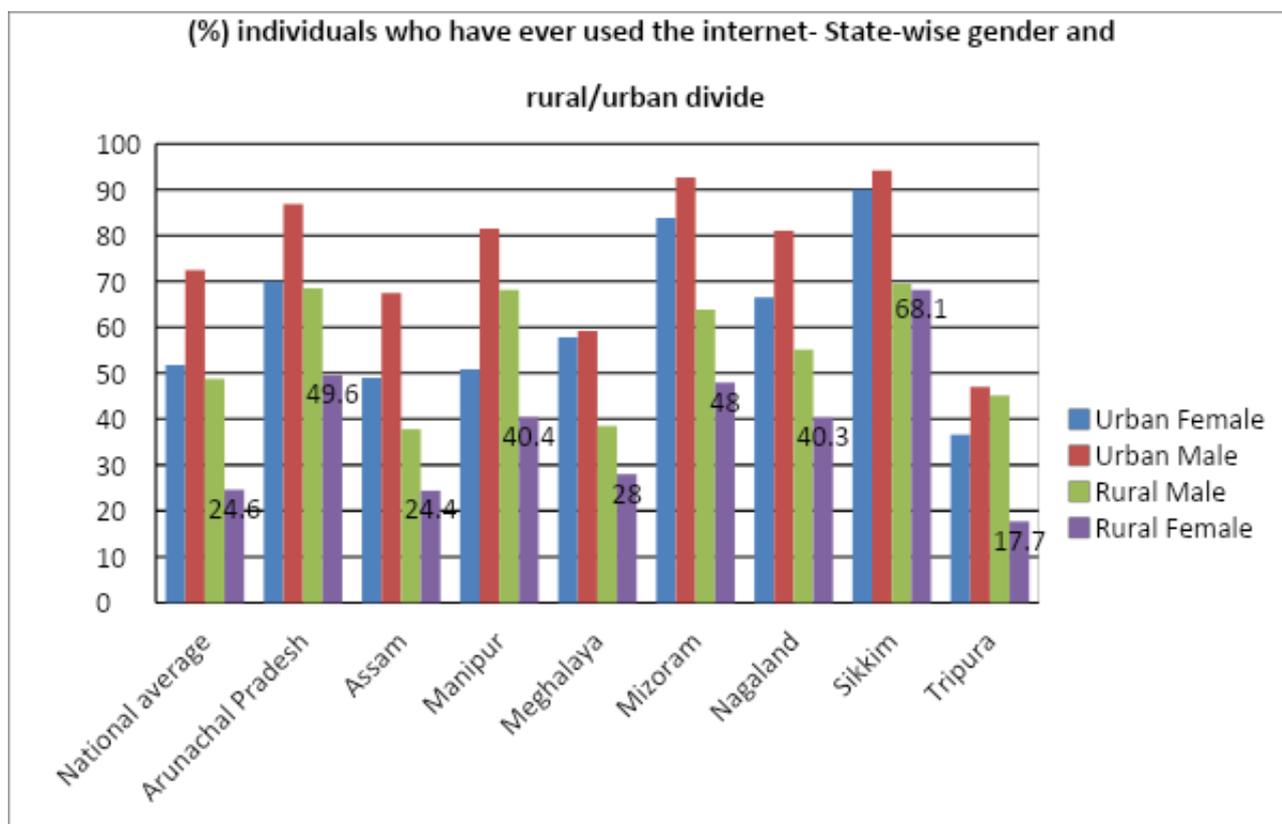
⁸ <https://www.expresscomputer.in/news/north-east-small-finance-bank-upgrades-its-core-banking-system-to-m2ps-turing/98019/>

⁹ <https://www.investindia.gov.in/team-india-blogs/age-digital-banking-role-apis-proliferating-financial-services>

BARRIERS TO DIGITAL FINANCIAL SERVICES, ACCESS AND INCLUSION

The North East India Region (NER) has long been suffering from a vicious cycle of low financial literacy and lower trust of banking and finance institutions in the people of the region. The credit deposit ratio figures released by the RBI report that for 2022, the CDR for North East as a region was 46.4%. This is much lower than the national average of 72.1%.¹⁰ The region is largely agrarian in terms of economy, yet awareness of crop insurance and livestock insurance was found to be lowest in the region by the 2019 NCAER report.¹¹ This is significant because every year there is significant losses faced by the people on account of natural calamities.

There is much scope to improve financial inclusion and literacy. Yet, the most fundamental barrier to financial inclusion is a lack of adequate brick-and-mortar banks in the region. With the ongoing digitisation of banking, digital payments have become much more widely accessible to people. However, there is a need for improving access to other financial products and services to capacitate the people in the region to leverage their earnings and savings for building assets. Without interventions to help people use their financial inclusion to grow and leverage their savings to build assets, they have limited advantages of opting for inclusion.



¹⁰ https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/145T_19112022F9E49363CC6E43ACB0F6F8FBA8F2826E.PDF

¹¹ https://www.ncaer.org/wp-content/uploads/2022/08/NCFE-2019_Final_Report.pdf pp:99,104

The following are some of the key issues that hinder digital financial inclusion in the region.

Poor network connectivity: While the state of internet penetration is improving in the region, the North East Region faces higher network downtime and slower internet speeds. According to a 2022 report by Ministry of Electronics and Information Technology (MeitY), digital payments transaction failure rates in the region are at 1.5-2X the national average due to 3X higher network downtime and 50% slower internet speeds compared to other regions of the country.

(Source: NFHS-5, 2019-21.)

Data on proportion of active internet users (or users who have accessed the internet at least once in the past month) in the region is unavailable, but the latest National Family Health Survey findings provide a glimpse into the digital divide in the region based on gender and geographical location within rural-urban divide. In Assam, Meghalaya and Tripura less than 40% women have ever used the internet. Assam and Meghalaya are also among the states in the nation with least number of male internet users.

Limited penetration of cash-out infrastructure: ATM and BC (Business Correspondent) penetration in the NER haven been reported to be 12% and 21% lower than the average for India. With additions in m-ATM arrangements, it can be inferred that the scarcity of adequate cash-out infrastructure is slightly higher.¹² Lack of adequate cash-in-cash-out infrastructure dissuades merchants and consumers from adopting digital payments, a case in point being that of the tea workers in Assam who continue to prefer cash payments.¹³ The number of functional common service centres (CSCs; per lakh people), envisaged as digital financial inclusion facilitators in addition to other digital services, is reportedly 39% below the national average.

Low penetration of Aadhaar in the region: According to latest data from the Unique Identification Authority of India (UIDAI), Aadhaar penetration in the region can be calculated at around 78%. This is much lower than the national average of 92.35%. Meghalaya and Nagaland have the lowest percentage population with Aadhaar cards, and at 81.81% Assam, the most populated state in the region also has a fairly low Aadhaar card holder ship.¹⁴ Lack of an Aadhaar card as an identity proof limits the ability of FinTechs to onboard merchants.

Adverse Inclusion: Very often, the financially excluded consumer does not understand the product s/he is selling or is misled into purchasing a product unsuitable to his/her risk profile. Besides, there have been instances where a consumer is worse off after being financially included. A customer should be able to search for useful information and resources to be able to select the most suitable financial product. Low-cost, high-quality digital and financial education should be easily available where customers are taught basic digital literacy and financial management.

¹² <https://www.rfilc.org/wp-content/uploads/2021/09/Catalyzing-Responsible-Digital-Payments-in-the-North-East-Region-of-India.pdf> pp13

¹³ <https://www.eastmojo.com/assam/2023/02/24/assam-despite-digital-hype-tea-workers-continue-to-be-paid-in-cash/>

¹⁴ https://uidai.gov.in/images/UIDAI_Annual_Report_21_22.pdf pp 142

Lack of information: Lack of information in the context of financial inclusion has been identified to exist in two levels - firstly, lack of knowledge of financial products and services among the customers; secondly, the bankers do not have adequate information on the customers due to lack of records or signed documents that can be leveraged by a Bank for due diligence.¹⁵ The lack of financial information could be resolved with advancements in consolidating a Public Credit Registry, or with the permeation of private sector-based Account Aggregators in the region.

Unwilling lenders: At present, lenders are heavily tilted towards asset-based lending. Lenders are much more willing to lend if there is collateral. Among other factors, frequent natural calamities, geographical remoteness, and political instability in the region contribute to presenting the client base in the region as risky to be serviced, consequently threatening the stability of providers if the risk profile of the client base is excessively high.

Internet shutdowns have frequently disrupted digital finance and banking activities in the region. The recent internet shutdown in Manipur was one of the longest in the region and had caused a breakdown of banking and ATM services and government and non-government services in addition to the more easily evident online banking services.¹⁶

¹⁵ <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/financial-services/in-fs-redefining-distribution-noexp.pdf>

¹⁶

<https://government.economictimes.indiatimes.com/news/governance/internet-suspension-in-manipur-hits-govt-banks-and-private-sector/100406361>

MEASURES TO IMPROVE DIGITAL FINANCIAL ACCESS & INCLUSION IN NORTH EAST INDIA

04

Improving digital financial access and inclusion in rural and remote North East India Region (NER) is certainly a complex task. It would require continued focus on key strategies that can help facilitate the process.

Addressing Digital Financial Infrastructure Needs: There needs acceleration in digital financial infrastructure by expanding network coverage, improving internet connectivity and speed, and ensuring reliable working power supply. The network stakeholders must come together be it the telecom operators, ISPs, and the government has to keep trying to push to enhance connectivity and speed and stable power supply.

Accelerating Mobile Banking and Payment Systems: Due to the infrastructure gap and reach and limitations in traditional banking services, and with increasing mobile phone penetration, the push for mobile banking and payment solutions, is a big and real alternative. This calls for well thought and inclusive approach in encouraging the adoption of mobile banking apps, mobile wallets, and USSD-based services that work on basic feature phones, with all safety security measures, education and awareness in the vulnerable groups and communities.

Increasing density of Banking Agents and Reach: Though there is already a spread of network of banking agents or correspondents who can act as intermediaries between financial institutions and rural communities, the reach and density is far from the required numbers. While the existing BCs are providing basic financial services, the increase in BC reach will ensure banking and financial services at the doorsteps of rural and remote communities.

Digital Financial Literacy and Education: There are ongoing financial literacy programs to educate rural communities about the benefits and usage of digital financial services. However, what is required is sustainable training and capacity-building provisions on these aspects, led by the Banks / Fis, CSOs and others that can regularly support in providing training on how to use mobile banking apps, understand financial products, and make informed financial decisions, along with safety and security concerns.

Collaboration with Local Stakeholders and Communities: Overcoming the current practices, there is a need to establish the process of involving the local community leaders, organizations, and stakeholders, including the Panchayati Raj Institutions (PRIs), Urban Local Bodies (ULBs), CBOs, social - cultural and student organisations in the design and implementation of digital financial inclusion initiatives. This ensures that solutions are tailored to the specific needs and preferences of the community, leading to better adoption and sustained usage.

Simplified Account Opening: This has been on the complex process as the first major step for financial inclusion and access. There is a need to simplify the cumbersome process of account opening process based on the rural and remote social and economic capacities of people including education and literacy levels, to make it more accessible and less burdensome for individuals, women, farmers and others in remote areas. Exploring alternatives to traditional Know Your Customer (KYC) requirements, such as leveraging biometric identification or community-based validation should be looked into, while taking cues from traditional banking processes.

Affordable and Relevant Financial Products: Digital financial access and inclusion depends on Develop financial products and services that cater to the needs of rural populations, such as microloans for agriculture, livestock, or small businesses. Ensure these products are affordable, transparent, and designed with an understanding of the unique challenges faced by rural communities.

Collaborative Public-Private Partnerships: There is need to develop and build collaborative frameworks at regional and state level to enable the digital financial ecosystem in the North East India region. Such collaborations can be led by the RBI regional office and institutions like the Indian Institute of Bank Management (IIBM) that can bring synergy between financial institutions, governments, NGOs, and technology companies to pool resources, share expertise, and leverage each other's strengths in addressing the challenges of digital financial inclusion in rural / remote areas of the region.

Regulatory Review and Support: There is need to look into the region-specific regulatory needs and issues that can further encourage innovation, competition, and the expansion of digital financial services in rural and remote regions of North East India. A specific exercise is required in this to streamline regulations related to mobile banking, agent banking, and digital payments to facilitate their adoption and usage.

Continuous Monitoring and Evaluation: Regularly assessing the impact and effectiveness of digital financial inclusion initiatives in the region while involving local academic institutions, student community and others can be the extra major step to build the ecosystem. There is required regular monitoring of the services usage patterns, identify barriers, and make necessary adjustments to improve the accessibility and relevance of services State and community wise, given the largely distinct ethnic and tribal nature of the communities.

While there is a need to look into the above and any such emerging needs, the other critical aspect is the gender and age specific challenges in access to digital financial services and linkages in the distinct social, cultural and economic landscape in tribal majority North East India communities. This means how and whether the processes, mechanisms, tools, methods to engage these groups with financial services digitally are sensitive and feasible to use and adopt shall be the bigger questions.

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