WPS8205

Policy Research Working Paper 8205

Making It Easier to Apply for a Bank Account

A Study of the Indian Market

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September 2017

Policy Research Working Paper 8205

Abstract

This paper draws on new individual-level survey data from India to study the costs of opening an account and the efficiency of the account application process. The data show a recent increase in account ownership, especially by women and poor adults. The data also suggest that India's flagship financial inclusion program, the Jan Dhan Yojana scheme, has made it easier to get an account, through lower costs and greater ease of applying. Yet despite the scheme's initial successes, people who wish to apply for an account continue to incur a range of costs. The survey results suggest several recommendations that could improve the account application process and increase ownership and usage of accounts.

This paper is a product of the Finance and Private Sector Development Team, Development Research Group. It is part of a larger effort by the World Bank to provide open access to its research and make a contribution to development policy discussions around the world. Policy Research Working Papers are also posted on the Web at http://econ.worldbank.org.
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Making It Easier to Apply for a Bank Account: A Study of the Indian Market

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JEL classification: D14, G21, G28

Keywords: Financial Inclusion; India; Household Finance; Financial Institutions

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1. Introduction

About 2 billion adults worldwide lack an account at a formal financial institution, despite mounting evidence that accounts help enable a wide range of development goals. This paper draws on new individual-level survey data from India – home to about a fifth of the world's unbanked adults – to explore the costs of opening an account, the efficiency of the account application process, and demographic differences between those who choose to apply and those who do not. These insights can help policy makers improve account application processes to foster greater financial inclusion.

The survey was carried out between January and March 2016, roughly a year and a half after the Government of India launched its flagship program aimed at achieving universal account ownership, known as the Jan Dhan Yojana (JDY) scheme.[1] The ambitious goal of the JDY scheme is to open one account per Indian household by offering zero-balance accounts with no opening fees. Our survey finds that the JDY program has made it easier to get an account. Compared to traditional applicants, adults who applied for a JDY account in the past year were half as likely to say the application process was difficult. JDY application rates are negatively correlated with wealth at the state level, unlike traditional application rates, which suggests the policy has disproportionally helped adults in poorer states.

Despite these initial successes, people who wish to apply for an account continue to incur a range of costs, including the cost of traveling to bank branches, the cost of collecting documentation and various other monetary costs. Most applicants face a combination of these costs, and their cumulative impact may be enough to dissuade unbanked adults from applying. For instance, on average applicants had to make two trips to the bank to complete the application process. In addition, more than half of JDY applicants reported paying a required minimum initial deposit, even though there is no such requirement under the program. The survey results suggest several recommendations to improve the account application process, including more effectively communicating the requirements for opening a JDY account.

Research suggests that financial inclusion helps facilitate economic development. Access to accounts has been shown to support women's empowerment as well as help people manage risk,

[1] For additional information on the government roll-out of JDY accounts see Chopra, Prabhala, and Tantri (2017).

accumulate savings and make investments.[2] There is also evidence that financial inclusion supports many of the Sustainable Development Goals (Klapper, El-Zogbhi and Hess, 2016). Well-functioning financial systems serve a vital purpose, offering savings, credit, payment and risk management products to people with a wide range of needs. Inclusive financial systems – where financial services are affordable and readily accessible to everyone who wants them – are especially likely to benefit poor adults and other disadvantaged groups. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or open a business – and small enterprises must rely on their limited earnings to pursue growth opportunities. Financial systems that exclude poor adults, women, and other underserved populations can contribute to persistent income inequality and slower economic growth.[3]

Informed by a fast-growing body of knowledge and experience, policy makers and regulators are beginning to make universal financial inclusion a priority in financial sector development. A survey of bank regulators in 143 countries found that 67 percent have a mandate to promote financial inclusion (World Bank, 2014a). More than 50 countries have set formal targets and ambitious goals for financial inclusion in the last few years.[4] International organizations such as the G20 and World Bank have put financial inclusion at the center of their development strategies.[5]

While financial inclusion begins with having an account, the benefits only come from active use of accounts to make payments, save money and manage risk. Moving cash payments into digital channels has many potential advantages for both senders and receivers, including higher account ownership and usage.[6] For example, digitizing transfers of government wages or social benefits can increase the number of adults with an account. It can also lower the cost of

[2] See, for example, Aportela (1999); Ashraf, Karlan and Yin (2010); Beck, Demirguc-Kunt, and Martinex Peria (2007); Bruhn and Love (2014); Burgess and Pande (2005); Dupas and Robinson (2013a, 2013b); Prina (2012); and Ruiz (2013).
[3] See, for example, King and Levine (1993); Beck, Demirguc-Kunt, and Levine (2007); Beck, Levine, and Loayza (2000); Demirguc-Kunt and Levine (2009); Klapper, Laeven, and Rajan (2006); and World Bank (2008).
[4] For example, the "Maya Declaration Commitments" made by the Alliance for Financial Inclusion, http://www.afi-global.org/maya-declaration-commitments.
[5] For example, the G20 Global Partnership for Financial Inclusion (http://www.gpfi.org) and the World Bank Universal Financial Access 2020 goal (http://ufa.worldbank.org).
[6] See World Bank (2014b) for a more detailed discussion of the benefits and challenges of digitizing payments.

disbursing and receiving payments (e.g. Aker, et al., 2013; Babatz, 2013), and increase transparency between the sender and receiver, thereby reducing leakage (Muralidharan, Niehaus, and Sukhtankar 2014). Evidence also suggests that digital transfers empower women within their households (Docquier, F., L. Lowell, and A. Marfouk, 2009). However, shifting cash payment into accounts is not without challenges. When making the switch, governments must take steps to guarantee a reliable and consistent digital payments experience. This includes making up-front investments in payments infrastructure, consumer protection and financial literacy programs to ensure that payments recipients know how to access and use their accounts (Klapper and Singer, 2017).

It is important to note that financial inclusion and access to finance are different issues. Some people choose not to use financial services even when they are affordable and available. Others want to use financial services but are prevented from doing so by any number of factors, including high costs, a lack of documentation needed to open accounts, or unavailability of banking services. Policy interventions should only target people who are involuntarily excluded from the formal financial system.

The rest of the paper is organized as follows. Section 2 introduces the survey instrument and breaks down account application rates by time and individual characteristics such as gender, income, age and education. Section 3 discusses reasons for not applying for an account and who are the unbanked. Section 4 discusses the introduction of JDY accounts and differences between adults who applied for an account within the past year and those that applied earlier for a traditional account. Section 5 offers a detailed overview of costs incurred in the application process and Section 6 concludes.

2. Access to Financial Services in India

Financial exclusion remains widespread in India and the wider region. South Asia, home to about 625 million adults without an account, hosted about 31 percent of the world's unbanked population in 2014 (Demirguc-Kunt, et al., 2015).[7] Between 2011 and 2014 account penetration increased in India from 35 percent to 53 percent. In absolute numbers, this growth

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[7] Global Findex data is available at: https://www.worldbank.org/globalfindex.

means that 175 million adults in India became account holders. But the sheer size of India's population means that there is still a long way to go before universal financial inclusion becomes a reality.

This paper updates the 2014 Global Findex indicator of account ownership using data from a new module of questions- *Measuring the Ease of Financial Access*[8]- added to the "Gallup 2016 India State Survey". Our survey asked respondents if they had ever applied for an account at any financial institution and finds that 68 percent of adults—in surveyed states—have applied for an account at a financial institution at some point in their lives.

This data provides another gauge of financial inclusion and the degree to which groups such as the poor, women and youth are excluded from formal financial systems. The indicators in the survey are based on a state-level representative sample of 12,000 adults in 12 Indian states – Andhra Pradesh, Bihar, Chhattisgarh, Himachal Pradesh, Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Uttar Pradesh (including Telangana).[9] It is important to note that the survey is not nationally representative. However, it is representative for these states, which make up about 70 percent of the country's population, according to the latest government census.[10] The survey was carried out between January 2016 and March of 2016 by Gallup Inc. The target population is the entire civilian, non-institutionalized adult (age 15 and above) population living in these 12 states.[11]

2.1 Account applications by individual characteristics: Inequality in gender and income

Survey results show differences by individual characteristics (Figure 1). Women do not have equal access to the financial system in India. The gender gap in application rates was 10 percentage points - 73 percent of men applied for an account, versus 63 percent of women (Figure 2). Madhya Pradesh lags with one of the largest gender gaps (21 percentage points). There is also an income gap, with 64 percent of poorer adults and 71 percent of richer adults

[8] The questionnaire is shown in Appendix 1.
[9] The states of West Bengal and Karnataka are excluded from the analysis in this paper due to data inconsistencies.
[10] Summary statistics by state are shown in Appendix 2.
[11] To ensure that the sample is representative of the adult population of the 12 states surveyed in India, weights based on available population demographics were used. Final weights consist of the base sampling weight, which corrects for unequal probability of selection based on household size, and the post-stratification weights which corrects for age, gender, education, caste and urban/rural to correct for nonresponse error.

applying for an account. In the state of Bihar, where the share of overall applicants is substantially lower than the overall average, only about half of poorest adults applied for an account - 15 percentage points fewer than their rich counterparts. Application rates vary by workforce participation and educational attainment. The share of wage earners (72 percent) is higher than the share of adults who are out of the workforce and applied for an account (64 percent). Among adults with primary school education, 62 percent applied as compared with 70 percent of adults who had completed secondary school education (and 84 percent of adults with a graduate degree).

Figure 1: Account applications, by individual characteristics
Adults who applied for an account (%)

Note: All gaps are statistically significant at 99 percent confidence level.

Regression results are shown in Table 1. In line with the summary statistics, we find statistically significant differences between adults that do and do not apply for an account: men, adults from the richest 60 percent of households, adults living in urban areas and more educated adults are significantly more likely to apply for an account. While there are no significant results for divorced, separated, and widowed adults, single adults are significantly less likely to apply than married adults. Adults who are out of the workforce or unemployed also find themselves significantly less likely to apply for an account. Our regression results suggest that older adults are more likely to apply for an account and adults are most likely to apply for an account when they are 56 years of age or above.

Table 1: Characteristics of adults who applied for an account

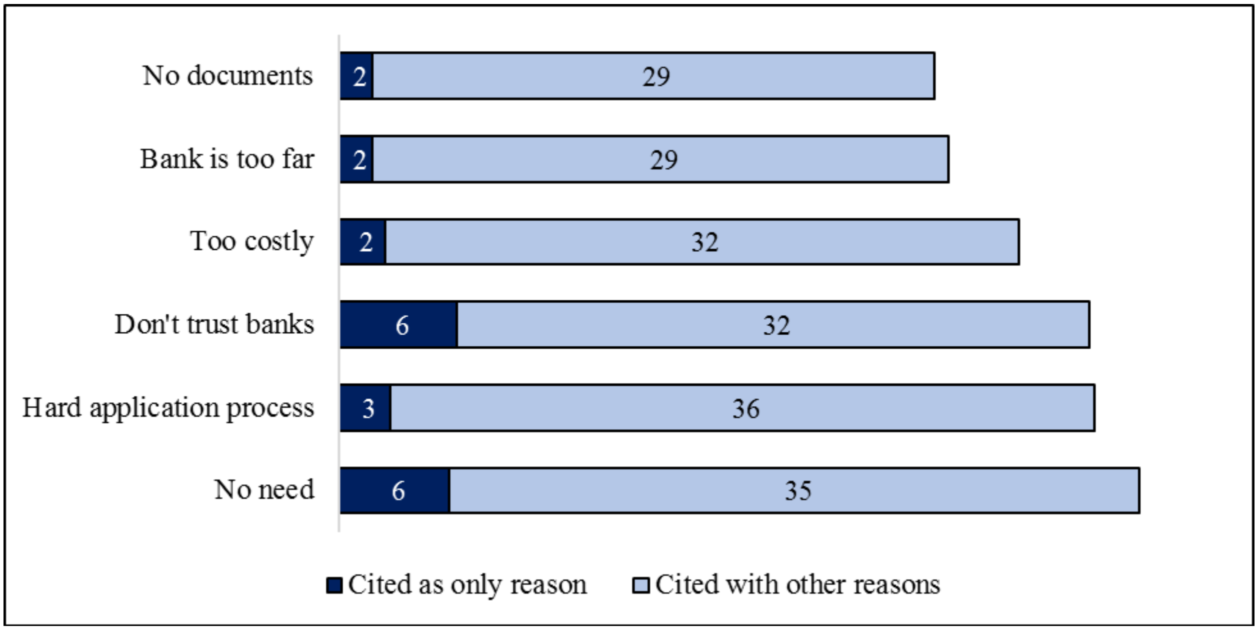
	Adults who applied for an account
Female (0/1)	-0.10***
	(0.01)
Income: poorest 40% of households (0/1)	-0.05***
	(0.01)
Rural (0/1)	-0.07***
	(0.01)
Education: illiterate (0/1)	-0.14***
	(0.02)
Education: primary (0/1)	-0.14***
	(0.02)
Marital status: single (0/1)	-0.06***
	(0.02)
Marital status: divorced/separated/widowed (0/1)	-0.03
	(0.03)
Employment: out of workforce/unemployed (0/1)	-0.04**
	(0.02)
Employment: self-employed (0/1)	0.04**
	(0.02)
Age	0.02***
	(0.00)
Age squared	0.02***
	(0.00)
Constant	0.41***
	(0.06)
States dummies	YES
Observations *(All Adults)*	12,000

Note: Table shows the marginal effect estimation of probit regressions, where the dependent variable is equal to one if an adult applied for an account and equal to zero otherwise. The base categories are male, richest 60 percent of households, urban residents, above primary school, married adults, and wage earners. The marginal effect for a zero/one variable is the effect of a change in the variable from 0 to 1 on the probability of an adults applying for an account, relative to the means of the other variables. Standard errors in parentheses, Asterisks ***, **, and * indicate significance at 1%, 5%, and 10% respectively.

3. Challenges of Applying for an Account

We also survey reasons for not applying for an account. Of adults who never personally applied for an account, 20 percent report that they had an account opened for them by an employer or the government in the past. For the remaining adults who never applied, we explore barriers that need to be addressed in order to facilitate higher financial inclusion. The survey allowed respondents to give multiple reasons for not applying. On average, 2.5 responses were cited. The most common reason is that the respondent has no need for an account: 41 percent adults without an account identified this as a reason, but only 6 percent cited it as the only reason (Figure 2). This suggests that once other perceived barriers, such as expense, are addressed, this pool of adults might perceive that they have enough money to open an account.

Figure 2: Self-reported barriers to applying for an account
Adults who never applied for account (%)



Note: Respondents could choose more than one reason.

The next most common barrier – adults did not know how to apply or thought the application process was too hard – was reported by 39 percent of unbanked adults. 42 percent of rural unbanked report this as a barrier compared with 28 percent of urban residents without an account. Greater simplification and clarification of the application process might help encourage these adults to apply for an account.

About a third of unbanked adults reported not having an account because of the high cost of opening an account. Some adults decline to get an account because they are unable to afford the fees for maintaining and using an account, or think the fees are not worth it. Fixed transaction costs and annual fees tend to make small transactions unaffordable for many people in emerging economies like India.[12]

About a third of the unbanked also reported a lack of trust in financial institutions. In a separate series of questions on trust in national institutions (e.g. government, military, etc.), on average, 90 percent of adults reported that they have confidence in the country's financial institutions. Yet 40 percent of these adults cited lack of trust as reason for not opening an account. Difference across states in people's perception of the safety of financial institutions (and the trustworthiness of bankers and agents) might reflect overall lawfulness and crime rates. For example, lack of trust in financial institutions was the biggest reason cited by 52 percent and 63 percent, respectively. in the states of Uttar Pradesh (cited by 52 percent) and Bihar (cited by 63 percent). While there were no significant gender gaps, rural residents (41 percent) and the poor (43 percent) were significantly more likely to cite this as a barrier than their urban (29 percent) and rich (33 percent) counterparts. This barrier can stem from cultural norms, past policy failures, and uncertainty about the future.

Documentation requirements are another important barrier to account ownership, cited by around 30 percent of adults without an account across all states in the survey. These requirements may especially affect those living in rural areas or employed in the informal sector. In fact, rural adults without an account were 11 percentage points more likely to report this as a barrier than urban adults. Since more than 90 percent of Indian workforce are a part of the informal economy,[13] producing a formal proof of domicile or an authentic wage slip may be challenging.

Documentation requirements should be less of a barrier in the future given that almost 93 percent of adults in India have an Aadhaar identification card. Moreover, in 2016 the Reserve Bank of India launched eKYC, a biometric Aadhaar authentication system, eliminating the need for paper documentation. eKYC is a step in the right direction towards simplifying the process of opening an account.

While none of the factors are strong enough on their own to dissuade adults from opening an account, the confluence of these factors makes account opening a tedious task.

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[12] It should be noted, however, that under government-led schemes, no fee is imposed on the account holder and any condition of a minimum balance is also waived.
[13] "Report of the Committee on Unorganized Sector Statistics", National Statistical Commission, Government of India, February 2012.

4. A Surge in Account Applications

The data illustrates a recent surge in account applications. People who answered that they applied for an account were asked about the timing of their application. Adults who said they applied less than five years ago were also asked more detailed questions, such as if they applied within the past 12 months and whether their application was approved or denied— and less than 2 percent said it was denied. Adults who said they applied more than 5 years ago were not asked additional questions about the application process (or if their application was approved or denied).

Among our sample, 28 percent of adults applied for an account more than five years ago. Nineteen percent of adults reported that they had applied in the last five years, but not in the last 12 months. The last 12 months saw a surge in numbers, with 20 percent of adults applying for an account in this period. This constituted 30 percent of overall adults who applied for an account. Overall, among states, the share of banked adults who applied in the past 12 months ranges from a high of 52 percent in Madhya Pradesh to a low of 8 percent in Maharashtra.

4.1 Jan Dhan Yojana scheme and application rates

Favorable government policies could lead to higher application rates. One possible example of such a policy is India's National Mission on Financial Inclusion "Jan Dhan Yojana (JDY)" scheme, which was launched about 18 months before the survey was conducted. JDY accounts were introduced by the Indian government in August 2014, with the goal to ensure that every household in the country has an account. JDY accounts offer several features designed to appeal to unbanked adults. Everyone with a JDY account is eligible for a RuPay debit card, accident insurance of INR 100,000 and life insurance coverage of INR 30,000 (for accounts opened prior to January 26, 2015). After six months of account ownership and depending on the account owner's creditworthiness, JDY account holders become eligible for an overdraft facility of INR 5,000 at the discretion of the bank. Policy makers hope the overdraft facility serves as a source of small, short-term loans to combat the high interest rates charged by moneylenders. On a broader level, the JDY policy also aims to combat leakage (government transfer payments going to unintended recipients) by channeling all government benefits directly into accounts.

The JDY has yielded impressive results: near the end of 2016, about 250 million accounts have been opened under the policy, with more than 78 percent of these accounts issued by public sector banks.

We find that 21 percent of adults (32 percent of adults who ever applied for an account) applied for a JDY account, and the majority of these accounts were opened in the last 12 months. However, since we can only identify accounts opened during two periods—accounts opened within the past year and prior to the past year—we can only compare traditional and JDY account openings within the last 12 months, i.e. any comparison of accounts opened prior to the past year would include a substantial period where JDY accounts did not exist. Since we cannot include accounts opened during the first 6-months of the JDY scheme, where as many as 130 million accounts where opened,[14] it would be unfair to compare individual characteristics of JDY and traditional account holders from the full sample. However, in the following sections we compare the cost and efficiency of opening JDY accounts, as compared to traditional accounts, in the last 12 months.

We explore whether there are demographic differences between adults who applied for an account within the past year, as compared to adults who applied for an account before JDY accounts were available (Table 2).

Our results suggest that in the last 12 months, groups with traditionally excluded individual characteristics have applied in larger numbers than groups that would otherwise fare better. During this period, women and the poor were about 5 percentage points more likely to apply than men and wealthier adults. Applications were 10 percentage points higher among illiterate adults compared with those who have studied beyond primary school. In the last 12 months, single adults were more likely to apply for an account than married adults, by 7 percentage points. Young adults were more likely to apply as compared to older adults; we find that fewer adults older than 62 or above applied for an account in the last 12 months.

[14] Official Pradhan Mantri Jan Dhan Yojana website.

Table 2: Characteristics of adults who applied for an account in the last 12 months

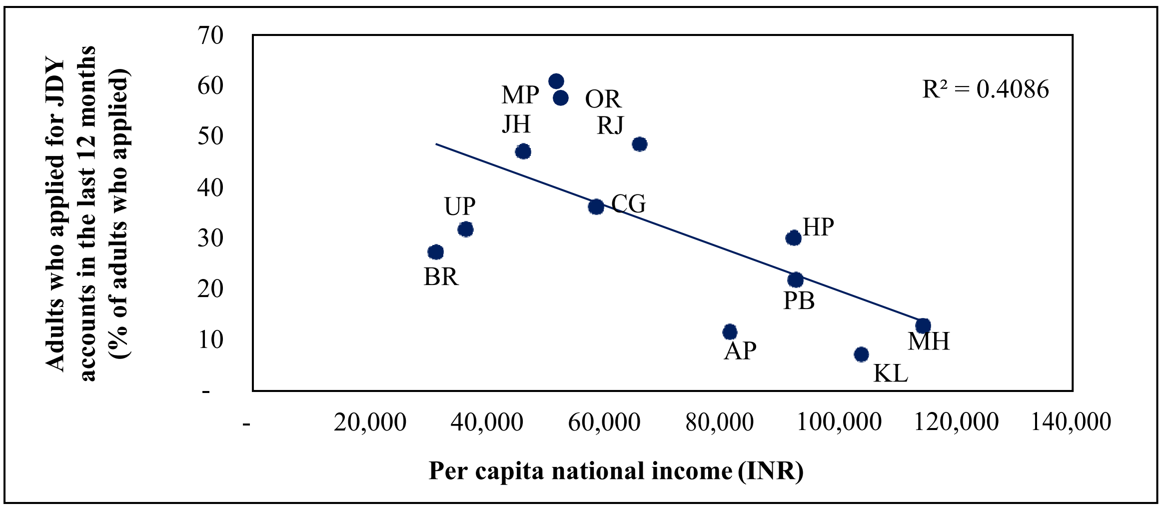
	Adults who applied for an account in the last 12 months
Female (0/1)	0.05***
	(0.02)
Income: poorest 40% of households (0/1)	0.05***
	(0.03)
Rural (0/1)	-0.03*
	(0.02)
Education: illiterate (0/1)	0.10***
	(0.02)
Education: primary (0/1)	0.04*
	(0.0179)
Marital status: single (0/1)	0.07**
	(0.02)
Marital status: divorced/separated/widowed (0/1)	0.00
	(0.03)
Employment: out of workforce/unemployed (0/1)	0.02
	(0.02)
Employment: self-employed (0/1)	0.02
	(0.02)
Age	-0.02***
	(0.00)
Age squared	-0.02***
	(0.00)
States dummies	YES
Observations *(Adults who ever applied for an account)*	8,683

Note: Table shows the marginal effect estimation of probit regressions, where the sample includes all adults who ever applied for an account and the dependent variable is equal to one if an adult applied for an account within the past year and equal to zero otherwise. The base categories are male, richest 60 percent of households, urban residents, above primary school, married adults, and wage earners. The marginal effect for a zero/one variable is the effect of a change in the variable from 0 to 1 on the probability of an adults applying for an account, relative to the means of the other variables. Standard errors in parentheses, Asterisks ***, **, and * indicate significance at 1%, 5%, and 10% respectively.

4.1.1 Do poorer states have a higher JDY application rate?

Typically, there is a there is a positive relationship between account applicants and state gross national income. In India, however, we find that the number of applications for traditional accounts does not have a significant relationship with the wealth of a state. This could be due to many reasons. For example, while richer economies may have higher per capita income, they may not have other advantages such as better banking infrastructure or higher financial capability, among others. In contrast, the number of JDY account applications is significantly smaller in wealthier states (Figure 3). This suggests that the JDY policy is making it easier for poor people to sign up for an account regardless of where they live.

Figure 3: Account applications for JDY accounts and state-level national income per capita
Adults who applied for an account (%)

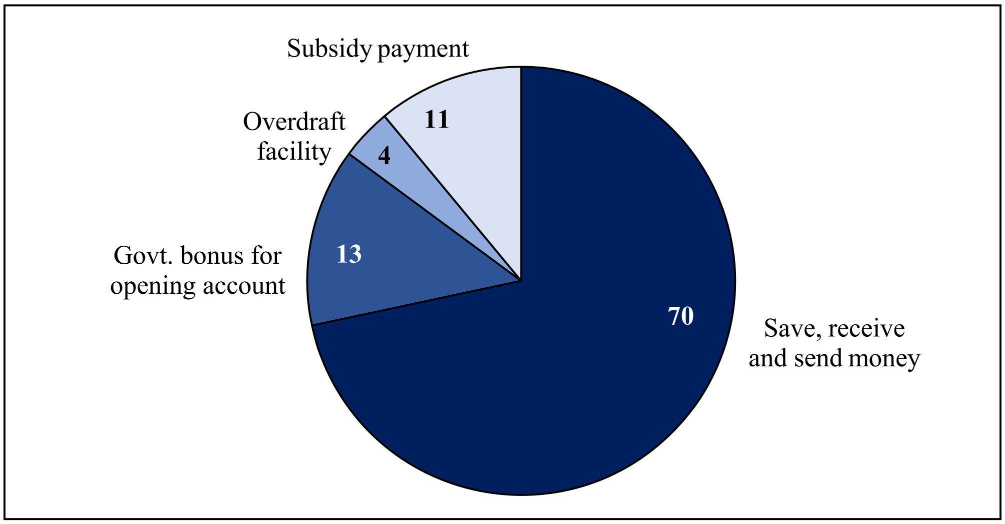


Source: Per Capita National Income data are from World Bank-World Development Indicators (2017).

4.1.2 Reasons why people apply for a JDY account

This section examines peoples' motivations for applying for a JDY account. Adults that replied they opened a JDY account were asked a follow-up question on the reason for opening the account. Respondents could give multiple reasons, such as receiving, sending, and saving money, using the account to collect subsidies, the overdraft facility, and receiving a bonus payment from the government in exchange for opening an account. About 70 percent of JDY applicants cited receiving, sending and saving money as their main reason for applying (Figure 4).

Fig 4. Self-reported reasons for applying for a JDY account
Adults who applied for a JDY account (%)



Note: Two percent of responses are “don’t know” and “refuse to answer”, not shown.

Another popular reason to apply for a JDY account is receiving payments from government social benefits programs. Around 11 percent of adults who opened JDY accounts cited this as their main reason. In some states, more than a third of JDY account holders applied for this reason, including Chhattisgarh (37 percent) and Maharashtra (34 percent). The government plans to use JDY accounts to expand the current direct benefit transfer (DBT) program in order to reduce corruption[15] and encourage encourage the use of formal financial services. But media reports also suggest that people might have been lured into opening a JDY account with the promise that they would be automatically eligible for public benefits that would be directly transferred into their bank accounts, regardless of whether they meet the actual individual criteria for benefits programs.[16]

Some JDY applicants were drawn to the overdraft facility. Nationally, only 4 percent of JDY account holders cited this reason, but the share approaches 25 percent in Maharashtra. The purpose of the overdraft facility under the JDY is to "provide hassle free credit to low income groups/ underprivileged customers”[17] when they need a short-term loan. However, media

[15] The direct benefit transfer (DBT) program was rolled out by the previous (UPA) government on January 1, 2013 for transferring subsidies of various welfare schemes through the Aadhaar platform.
[16] “Truth vs Hype: Jan Dhan's Half-Empty Promise”. NDTV. May 17, 2015, http://www.ndtv.com/india-news/truth- vs-hype-jan-dhans-half-empty-promise-763720.
[17] Overdraft facility, Official Pradhan Mantri Jan Dhan Yojana website.

reports suggest that not all JDY account owners understood the overdraft facility. Many believed that they do not have to return overdrawn money, and as a result some banks lowered their overdraft allowance in response to such misunderstandings.[18] Many applicants mistakenly think the capped overdraft amount of INR 5,000 is a direct transfer to their account, similar to government safety- net payments that could be transferred electronically.

The reason cited by 13 percent of respondents is that they expected the government to give them a cash bonus for opening a JDY account. The proportion was especially high in certain states, particularly Bihar (46 percent), and Andhra Pradesh (31 percent). While a cash bonus could be perceived by the respondents as other forms of government subsidies, the official JDY policy does not feature such a provision. However, the Indian media has documented incidents where adults were promised an influx of cash from the government if they opened an account under the JDY scheme. For example, cases have been reported in Rajasthan, Haryana, and Bihar where adults were promised payouts from "black money" that the government had planned to repatriate from illegal accounts set up by Indian nationals overseas.[19] This promised amount has been reported to vary across states ranging from INR 5,000 to as high as INR 150,000.

Widespread misconception about JDY accounts underscore the need to provide the public with clear, consistent, and reliable information. There is a danger that accounts opened under false expectations will go unused and people will miss out on the benefits of financial inclusion.

5. Exploring the Costs and Difficulties to Open an Account

There are costs associated with opening an account. Costs can be monetary in the form of fees or minimum balance requirements, or they can be non-monetary in the opportunity cost of time spent when applying for an account. Most applicants face a mixture of both types of costs (see Box 1, below). Questions on the efficiency of the application process were asked only to adults who applied for an account in the last five years.

(http://pmjdy.gov.in/files/QuickLinks/Overdraft-facility.pdf).

[18] Business Standard. Sept 11 2014. http://www.business-standard.com/article/finance/jan-dhan-yojana-initially-overdraft-amount-might-be-small-114091000446_1.html.

[19] "Mr Modi, show them the money - Why cashier Mithun is facing the music". The Telegraph. Oct 28, 2015, http://www.telegraphindia.com/1151028/jsp/frontpage/story_50067.jsp#.V6NinNKV-Uk.

An important caveat is that self-reported barriers to account opening might be inflated by government efforts to offer JDY accounts to the unbanked, who may also have lower levels of financial capability, including poor adults and those living in rural areas, who might have the greatest difficulties accessing bank branches, documentation, etc. In other words, although JDY accounts might have simpler opening requirements, adults opening JDY accounts might report greater difficulties, relative to adults that opened traditional accounts.

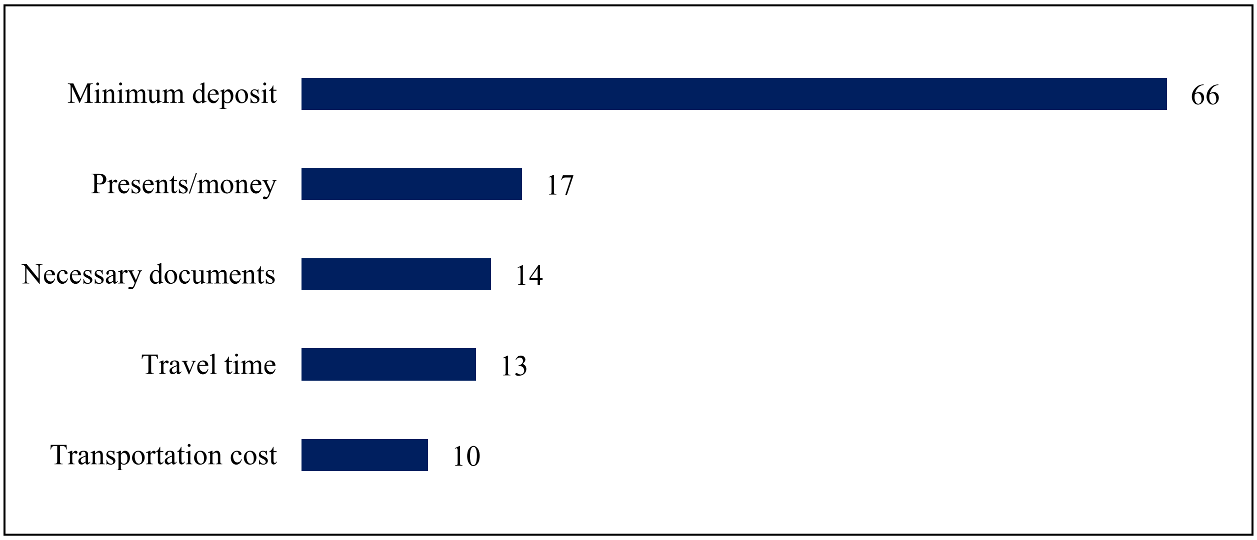
Box 1: Efficiency of Application Process	
Travel Time	Adults who report it took more than 1 hour to get to the required location to apply for an account
Transport cost	Adults who report that transportation costs to get to the place to apply for an account were expensive
Necessary documents	Adults who report that the process of getting all necessary documents to apply for an account was difficult
Minimum deposit	Adults who report that they were required to deposit a minimum amount of money to apply for an account
Presents/Money	Adults who report giving presents or additional money to apply for an account

5.1 The efficiency of opening an account (among applicants in the past five years)

In response to the question, "Was the whole process of applying for an account easy or difficult?", 15 percent of adults who applied for an account within the past five years found the overall process difficult (Figure 5). The survey investigated further and asked questions on different aspects of cost and ease of application to identify specific challenges to the overall efficiency of the process. Figure 6 summarizes, by step of the application process, the percentage of adults that report the process of applying for a new bank account (within the past five years) to be expensive or difficult.[20]

[20] Summary statistics by state are shown in Appendix 2.

Figure 5: Percentage of applicants who reported the following steps as difficult or expensive
Adults who applied in the past five years (%)



Note: See Box 1 for definitions of efficiency measures.

To summarize the reported challenges of applying for an account:

- About 1 in 10 adults who applied in the last 5 years found the travel costs to be expensive and spent more than 1 hour at the required location to open an account. On average, applicants made 2 trips to the bank when applying for an account.

- 14 percent of adults who applied in the last 5 years found the process of applying for additional documentation difficult.

- Overall, 66 percent of adults who applied in the past 5 years paid a minimum deposit. More than 85 percent of adults in Himachal Pradesh and Rajasthan paid some sort of minimum deposit when applying for an account.

- 17 percent of adults who applied in the past 5 years paid additional presents/money on top of the minimum deposit, including nearly 50 percent of applicants in Punjab.

No significant gender, income or literacy gaps were found in the overall difficulty or cost of application. While the transportation costs were relatively equal, rich and urban adults were half as likely to report that it took more than 1 hour to travel to the place of application compared with their poor and rural counterparts. Poor adults were just as likely as rich adults (66 percent) to report depositing a minimum deposit at the time of account opening. In addition, poor adults were 4 percentage points more likely than rich adults to make an additional informal payment on top of their minimum deposit.

Some of the widest gaps were seen in comparisons between wage employed and adults who are out of the workforce, unemployed or self-employed. Only about 5 percent of employed adults found the application process difficult or expensive, compared with unemployed, self-employed and out of workforce adults, 20 percent of whom found the process difficult and 11 percent reported it expensive. Compared to unemployed, self-employed and out of workforce adults, wage employed adults were half as likely (5 percent) to report that they found the process of getting the necessary documents to open an account difficult. On average, wage employed adults are more likely to have a higher income and education level—and proper knowledge and documentation needed to apply for an account. Employers might leverage this ease with the account opening process to introduce their employees to an electronic wage payment setup.

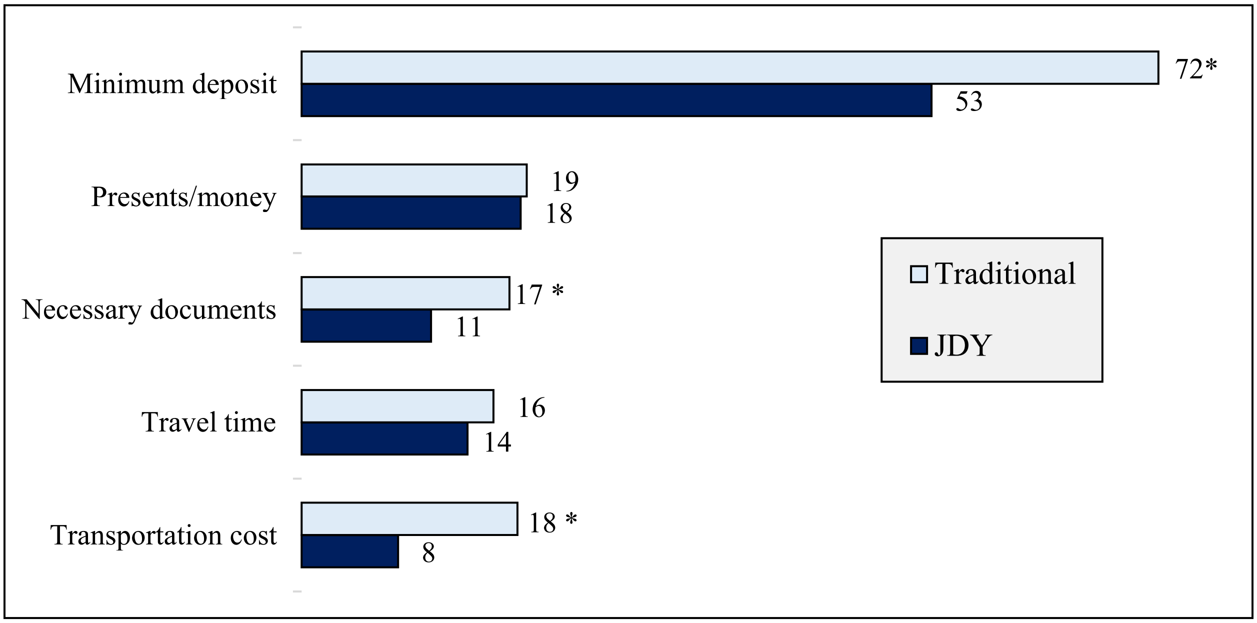
5.2 The efficiency of opening a JDY account (among applicants in the past year)

In the subsequent we explore the efficiency of account application for JDY accounts, as compared to traditional accounts. While a comparison of the full sample is not possible for reasons explained above, we will exploit the information using only accounts opened in the last 12 months (instead of last 5 years) to compare 'quality' differences in account application for JDY and traditional accounts (Figure 6). We examine the following reported barriers to account ownership: transportation costs, travel time, necessary documents, the costs of additional presents/money, and a requested minimum deposit.

It is again important to keep in mind that JDY accounts targeted unbanked individuals traditionally excluded from the formal financial sector, including women, poor adults and rural residents. Reported barriers to opening an account also reflect individual's subjective understanding of the application process and perceived requirements. Survey results highlight the importance of clarifying and simplifying JDY account opening procedures and improving financial capability among new account holders.

Figure 6: Efficiency of applying for Jan and traditional accounts, by application step: Percentage of applicants who reported the following steps as difficult or expensive

Adults who applied in the last 12 months (%)



Note: See Box 1 for definitions of efficiency measures. An asterisk indicates a statistically significant difference between the cost or difficultly of applying for a Traditional versus a JDY account.

5.2.1 Travel to the place of account opening

Someone who wants to open an account must travel to a bank branch. Sometimes this can involve travelling long distances in rural areas. Other times, something as simple the lack of staff or account opening forms at the bank branches can require multiple trips. Such trips entail financial costs in the form of transportation expenses, in addition to the opportunity costs of losing time in making the commute. This section considers both costs.

Around 95 percent of account applicants chose to file their application at a bank branch. Overall, an average applicant made two trips to travel to the place of application. Only 8 percent of adults who applied for a JDY account said traveling to the bank was expensive in terms of money spent on transportation, as compared to 18 percent of adults who applied for a traditional account (Figure 7). One possible reason the share is lower among JDY applicants is that as part of the JDY policy, banks set up micro-ATMs or mobile branches near areas that lacked banking facilities, potentially reducing the travel costs for applicants. Adults who opened JDY accounts through these may have found the overall travel cost to be less expensive.

In addition to the money spent on transportation fees, there is also the opportunity cost of time spent traveling. There was no statistically significant difference in the travel time between JDY applicants and traditional applicants; around 15 percent of adults who applied for an account said traveling to the bank took more than an hour.

It is important to note that traveling imposes multiple burdens on working people. According to the survey, nearly 4 in 10 adults in India work for wages, and a substantial segment are either self- employed or work as casual laborers. Among account applicants who said their travel time was more than one hour, the average travel time to the place of application was at least four hours. This translates into a significant amount of time lost for workers.

Nonetheless, India is taking significant steps to reduce the travel costs associated with opening an account. The Reserve Bank of India's New Payment Banks now allow telecommunication companies, such as Airtel, to offer savings and debit accounts. The benefits of these New Payment Banks are multifold. Since telecommunications firms tend to have a deeper presence in remote areas than traditional banks, New Payment Banks significantly improve the travel time and transportation costs for rural residents. For example, within six months of its launch, the Airtel Payment Bank already had 10 million users, 25 percent of whom were from rural or poor areas. Withdrawal costs are lower with payment banks, as well. For example, Airtel Payment Bank, which now claims to have 200,000 agents across the country, charges customers just 0.65 percent per withdrawal, compared to an average 2 percent per withdrawal at a traditional bank. Initiatives like RBI's New Payment Banks are promising steps towards reaching disproportionately unbanked groups, such as the rural residents and the poor.

5.2.2 Ensuring availability of necessary documents

A new biometric authentication system, eKYC, now allows Indian bank customers to verify their identify electronically. Yet at the time of our survey, Know Your Customer (KYC) regulations required people to produce certain types of paper documents to get an account. This section assesses the difficulties of collecting the necessary documentation for opening an account with KYC, including the ease of obtaining the paperwork in question. The typical applicant who did not have the necessary documents on hand made an average of more than 2 visits to government offices to collect documents.

The survey reveals that around 17 percent of adults who applied for a traditional account found it difficult to obtain the required documents, versus 11 percent of adults who applied for JDY accounts (Figure 7). Although they were significantly less likely to report documentation woes, we expected a much lower figure for JDY applicants. The JDY policy was designed to make it easier for unbanked adults to get an account by easing documentation requirements. To qualify, a person only needs to produce a 12-digit identification number issued by the government, either in person, or electronically. The question remains whether eased documentation requirements will encourage adults to open accounts (see Box 2). In some states, the share of JDY applicants citing documentation costs was significantly higher, including Uttar Pradesh (26 percent) and Chattisgarh (31 percent).

Box 2: Are easy documentation requirements enough to encourage account ownership?

The JDY policy has attempted to make documentation requirements relatively lenient. The only documentation required to open a JDY account is a biometric 12-digit individual identification required to open a JDY account is a biometric 12-digit individual identification number, also called an *Aadhaar* number, issued by the Unique Identification Authority ofIndia on behalf of the government. The government's goal was to have universal coverage, and as of mid-2016, 93 percent of adults in India had an *Aadhaar* number.[21] For adults without an *Aadhaar* number, at least one other official document- voter ID card,[22] driving license, PAN card, passport, or MGNREGA[23] card- can be submitted to open a JDY account. If none of these documents are available, a temporary “small” account is opened for a period of one year. Upon successful submission of documents, these accounts are converted to permanent accounts.[24]

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[21] Press Information Bureau, 2016.
[22] Permanent Account Number (PAN) is a unique, 10-character alpha-numeric identifier, issued to all judicial entities identifiable under the Indian Income Tax Act, 1961.
[23] Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is an Indian labor law and social security measure that aims to provide at least 100 days of wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work.
[24] “Small Account”, Official Pradhan Mantri Jan Dhan Yojana website (http://pmjandhanyojana.co.in/small- account-pmjdy/).

Drawing data from a complimentary survey on government delivery of public goods and services,[25] we find that 95 percent of adults who never applied for an account had an *Aadhaar* number.

Despite high coverage of Aadhaar and the launch of eKYC, which allows customers to verify their identity electronically, the share of unbanked adults remains high. This suggests the importance of ensuring documentation requirements under the JDY policy are clearly and effectively communicated to the public in order to clear up misconceptions.

5.2.3 Other monetary costs

The survey explores two potential types of fraud: minimum deposit requirements at the time of opening an account and informal payments in the form of presents or money requested in addition to the official cost of opening an account.

Officially, there is no fee for opening a JDY account. Anyone who produces the necessary documents and shows up at the bank is eligible for a free account. Yet one in five adults who opened an account said they were required to pay extra money or presents, such as to a middleman who demanded extra payments in exchange for processing account applications, with no differences between JDY account holders and traditional account holders (Figure 7).

Among adults who opened a traditional account, 72 percent said they were required to pay a minimum deposit (Figure 7). The share was 53 percent among those who opened a JDY account– which is surprising given that there is no minimum deposit requirement under the JDY policy. In fact, the zero-balance provision is touted as one of policy's most attractive features. Most adults are not well informed about the policy and continue to attach high costs to the process of applying for an account. Marketing the policy clearly and correctly might prevent people from being misinformed.

Our aim in this section has been to provide a detailed analysis of individual account application

[25] Demirguc-Kunt, D., L. Klapper, and N. Prasad (2016).

costs. Yet it is important to bear in mind that these costs often manifest simultaneously and not in isolation. It is the cumulative effect of these costs rather than the individual effect that makes the overall cost prohibitively high and dampers the efficiency of account application process. Skipping several hours of work to collect documentation or visit a bank branch means foregoing income, especially for the many adults who are employed in the informal sector. Additional payments to facilitate applications and minimum deposit requirements can make the account opening process an expensive affair.

5.2.4 Bank cards: Encouraging the use of accounts

While having an account is the the first step in financial inclusion, people only benefit when they use their accounts to manage money. Bank cards (ATM/debit cards) are important in facilitating this use through point-of-sale and other digital payments. This is especially important in light of recent Government of India efforts to reduce the use of cash. The survey reveals that around 58 percent of adults who applied in the last 5 years for an account also received a debit card. In the last 12 months, 62 percent of adults who applied for a JDY account and 50 percent of those who applied for a traditional account during the same time said they either received a bank card or were in the process of receiving one. 31 percent of applicants who applied in the last 5 years said they simply were never offered a bank card. Among JDY applicants, a greater share – 42 percent - reported that they were not offered a bank card. For traditional applicants, the proportion was much lower at 24 percent. Many applicants also declined cards: of JDY applicants who did not get a bank card, 38 percent said they did not want one; among traditional applicants that number was 41 percent. The remaining adults who did not get a card said the fee was too high or that they were not aware of the cards. Expanding access to bank cards is essential to reduce account dormancy and increase usage of accounts for cash management, savings, and electronic payments.

6. Policies Towards Achieving the Last Mile

Although the percent of adults in India that have applied for an account has increased in recent years, the share of adults that never applied for an account is higher among women and the poor. Policies like the JDY, with its relatively easy documentation process, shorter travel time and lack of minimum balance requirements, could prove to be key in achieving the government's goal of increasing account ownership. The Reserve Bank of India's New Payment Banks, more common in remote areas than traditional banks, also help to cut travel costs and improve access for rural residents. The overall increase in account ownership in the last few years, particularly for women and poor adults, is an important step in the right direction. That said, the take-up of any government scheme, including the success of the JDY program, depends on a host of factors, such as demographic distribution, cultural norms, physical infrastructure, and effectiveness of outreach.

This survey reveals several opportunities for India to build on its financial inclusion successes. Clearly communicating documentation requirements for JDY accounts, and encouraging the use of the existing eKYC electronic authentication system, are potential steps. The survey suggests that the vast majority of adults who cite lack of documentation as their reason for being unbanked actually do have what is needed: 94 percent report having an *Aadhaar* number. If unbanked adults were better informed about application requirements, they might choose to open an account.

Better marketing of the policy is also essential for addressing the concerns of the 35 percent of adults who said they did not apply for an account as the process is too expensive. Adults need to be informed that JDY accounts are free and there are no minimum deposit requirements—a person could easily open a zero-balance account, which does not require any initial deposit. However, the survey shows that about a fifth of JDY applicants were asked to offer some form of unofficial payment, and about half were required to make a minimum deposit. One of the potential ways to increase accountability may be better governance of the agents. Since agents are seen as the face of the bank, particularly in rural areas where bank branches are not widely present, better agents could help anchor trust for financial institutions, which would further the goal of financial inclusion.

The ultimate goal of the JDY scheme is to expand financial inclusion. While the first step involves opening a bank account, it is important to ensure that adults use their account in beneficial ways. The 2014 Global Findex found that 43 percent of accounts in India were dormant. Although the survey does not ask about account usage, official JDY account figures on zero-balance accounts[26] show that the share of zero-balance accounts has dropped from a high of 77 percent in the early months of the policy in September 2014 to about 24 percent in July 2016.

There could be multiple reasons for the declining share of zero-balance accounts, but the data provide some limited clues. A recent study finds that in spite of unfamiliarity with banking or financial literacy training, newly banked adults show an increase in JDY account activity as accounts age and usage levels converge or exceed levels seen in comparable traditional accounts (Chopa, et al., 2017). Another study finds that moving government payments from cash into accounts is a plausible way to reinvigorate dormant accounts and further expand financial inclusion (Klapper and Singer, 2017). JDY accounts are being used to receive government social benefits payments, which was touted as one of the policy's main potential upsides. The Indian government estimates that it has saved around USD 2 billion by digitizing the delivery of fuel subsidies, and they attribute part of that success to the use of JDY accounts.[27] However, additional research could investigate if opening an account leads to usage of additional financial services, such as electronic payments, savings and appropriate credit.

There have been a number of initiatives to collect demand-side data on account ownership, directly from users of financial services. The survey shows the value of extending the scope of questions to include metrics of the cost, time and documentation challenges of opening new accounts. This information can help inform policy makers, researchers and practitioners working towards greater and more inclusive access and use of formal financial sector services.

[26] Zero balance accounts are regular savings accounts which could be opened without having any balance in the account.

[27] "India saved $2 billion by reforming fuel subsidiary delivery", The Economic Times, July 03, 2015. http://articles.economictimes.indiatimes.com/2015-07-03/news/64068421_1_lpg-subsidy-pahal-pradhan.

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Appendix 1: "Measuring the Ease of Financial Access" Questionnaire

1. Have you, personally, either by yourself or together with someone else, EVER applied for an account at a bank or other financial institution?
    i. Yes
    ii. No

2. When was the LAST TIME you applied for an account at a bank or other financial institution? Was it in the last 12 months, in the last 5 years, or more than 5 years ago?
    i. In the last 12 months
    ii. In the last 5 years
    iii. More than 5 years ago

3. Did you apply for a JanDhan Yojana scheme account?
    i. Yes
    ii. No

4. What is the MAIN REASON you applied for a JanDhan Yojana scheme account? Was it to save, receive, or send money, to get a government monetary bonus for opening an account, to get the overdraft facility, to receive a government subsidy payment, or for some other reason?
    i. To save, receive, or send money
    ii. To get a government monetary bonus for opening account
    iii. To get the overdraft facility
    iv. To receive a government subsidy payment
    v. Some other reason

5. Now, I would like to ask you a few questions about the LAST TIME you applied to open an account at a bank or financial institution. Did you receive that account, were you denied that account, or are you still in the process of opening the account?
    i. Received account
    ii. Denied account
    iii. Still in process

6. Did you receive a debit/bank/ATM card when you opened your account?
    i. Yes, received card
    ii. No, did not receive card
    iii. (Still in process)

7. What was the main reason that you did not receive a debit/bank/ATM card? Was it because it was not offered to you, because the fee was too high, because you did not want one or did not apply for one, or because you were not aware you could get a debit/bank/ATM card?
    i. It was not offered to you
    ii. The fee was too high
    iii. You did not want one/did not apply for one
    iv. You were not aware that you can get a debit/bank/ATM card

8. Was the whole process of applying for an account easy or difficult?
   i. Easy
   ii. Difficult

9. How did you first apply to open your account? At a bank, using a NGO or bank agent (not located at a bank), on the Internet or using a mobile phone, or some other way?
   i. At the bank
   ii. Using a NGO or bank agent (not located at a bank)
   iii. On the internet or using a mobile phone
   iv. Some other way

10. Roughly, how long did it take to get to the place where you had to apply for an account?
    i. Less than 30 minutes
    ii. 30 minutes to less than an hour
    iii. 1-4 hours
    iv. More than 4 hours
    v. (No time- done in my home)

11. Roughly, how many times did you need to go there in order to complete the whole application process?
    i. Record number of times

12. Were the transportation costs to get to the place where you applied for an account expensive, a reasonable price, or there was no cost?
    i. It was expensive
    ii. It was a reasonable price
    iii. There was no cost

13. Was it easy or difficult for you to get all necessary documents you needed to open an account?
    i. Easy
    ii. Difficult

14. Did you have all government documents in your home that were necessary to open the account at the time you applied, or not?
    i. Yes
    ii. No

15. Roughly, how many times did you need to go to a government office in order to collect all the necessary documents?
    i. Record number of time

16. Which of the following best describes ALL OF THE COSTS of opening an account? It was expensive, it was a reasonable price, or there was no cost?
    i. It was expensive
    ii. It was a reasonable price
    iii. There was no cost

17. Were you required to deposit some minimum amount of money at the time the account was opened?
    i. Yes
    ii. No

18. In addition to the official cost of opening an account, did you have to give presents or money in order to open an account?
    i. Yes
    ii. No

19. Do you have an account at a bank or financial institution that was opened for you by someone else, like an employer or the government?
    i. Yes
    ii. No

20. Please tell me whether each of the following is a BIG reason why you have never, personally, applied for an account. Is it because (Read A-F)
    A. You didn't need it or thought it would not be useful for you
    B. It cost too much
    C. You didn't have the necessary documents
    D. The closest bank is too far away
    E. You don't know how to apply or it is too hard
    F. You don't trust banks
    i. Yes
    ii. No