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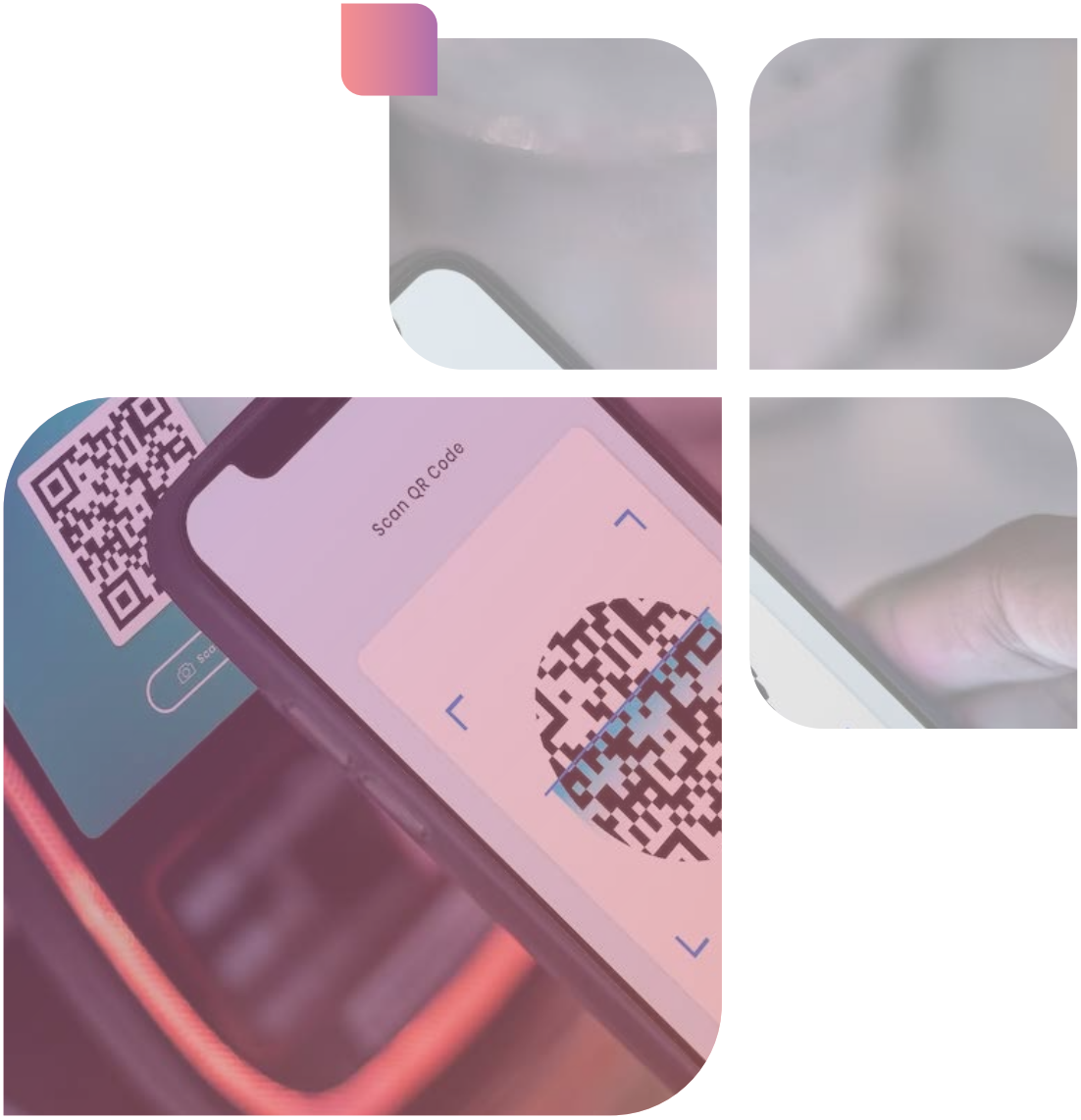
PINBOX SOLUTIONS



Digital & Financial Inclusion Barometer

Rapidly tapping the digital and financial pulse of India today

Preamble

Sambodhi and pinBox have collaborated to produce a time-series data set on digital and financial inclusion. The Barometer will cover quarterly surveys on occupation, age, and gender representative all-India panel to track changes in digital and financial outlook and behaviour over time. With this longitudinal data, the aim is to also develop indices that will map such changes over time. The first of this series links digital inclusion with retirement outlook and confidence among urban and rural households in India.

In 2009, the Government of India launched a National Pension System (NPS) to enable India's 400 million informal sector workers without pension benefits to voluntarily accumulate micro-savings for their old age. The NPS is among the most efficient pension programs in the world and has already resulted in mobilizing new long-term household savings of over $100 billion. However, twelve years on, barely 5 million non-salaried individuals have elected to open NPS accounts. The government as well as PFRDA, India's pension regulator, have a deep demonstrated commitment to rapidly increasing pension coverage. However, encouraging mass-market outcomes with the NPS will require a segmented outreach and communications strategy coupled with sustained efforts on retirement literacy.

OECD, in a Policy Brief dated July 2006[1], observes that financial education is increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education, and ensure an income when the parents retire. Of course, people have always been responsible for managing their own finances on a day-to-day basis – spend on a holiday or save for new furniture; how much to put aside for a child's education or to set them up in life – but recent developments have made financial education and awareness increasingly important for financial well-being. For one thing, the growing sophistication of financial markets means consumers are not just choosing between interest rates on two different bank loans or savings plans but are rather being offered a variety of complex financial instruments for borrowing and saving, with a large range of options. At the same time, the responsibility and risk for financial decisions that will have a major impact on an individual's future life, notably pensions, are being shifted increasingly to workers and away from the government and employers. Individuals will not be able to choose the right savings or investments for themselves and may be at risk of fraud if they are not financially literate.

In simple terms, Digital Financial Services (DFS) refer to all those financial services which are dependent on digital technologies for their delivery and consumption[2]. DFS is primarily demanded due to its lower costs, high speed, and availability of more tailored financial services. New entrants in the financial sector including Fintech firms, neo-banks, peer-to-peer lending platforms, online lenders, e-commerce platforms, and social media providers are the main players in DFS now. Banks, insurers, and asset managers are also expanding their financial services through digital platforms. Newly emerged digital products and delivery channels have transformed consumer risk exposure, primarily for inexpert and vulnerable DFS users. Due to demonetisation (in India), and the Covid pandemic, usage of digital finance has increased rapidly. In India UPI payment systems are broadly accepted and see good growth, it recorded 17.9 million digital transactions per month in 2016, raised up to 1.3 billion per month in 2020.

Against this backdrop, Sambodhi Research and pinBox Solutions have launched a pan-India survey aiming to profile the latent pensions demand among informal sector workers.

1 *https://www.oecd.org/finance/financial-education/37087833.pdf*

2 *Digital Financial Services – Risks for consumer, January 2, 2022, Agyeya Tripathi in Finance, TOI*

Overarching Goal:

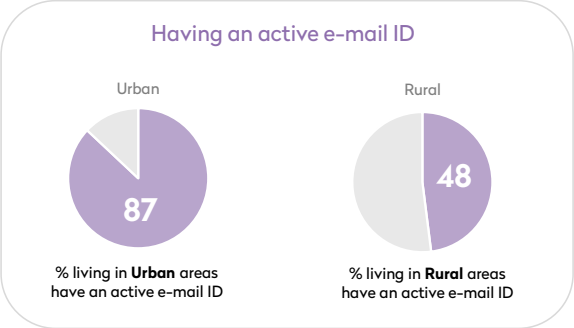
The survey seeks information from respondents on their retirement outlook, intentions, expectations, and behavior, to assess the potential demand for voluntary retirement savings like the NPS.
Importantly, the survey will help ascertain the digital KYC and financial capacity of individuals to activate NPS accounts, as well as their ability to transmit periodic pension contributions using digital payment instruments. Over time, the survey can provide a valuable baseline panel upon which a time-series data can be built to better understand trends and public responses to ongoing changes and improvements in outreach, access, and the NPS product architecture.

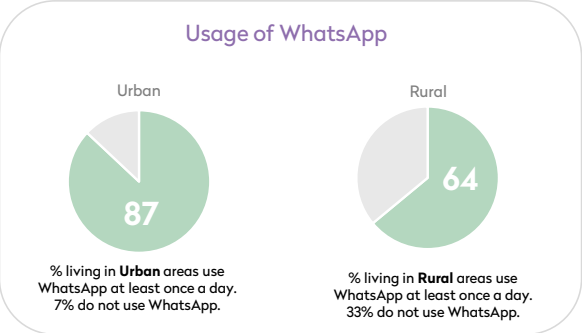
This survey was conducted by telephone, covering 7924 urban respondents and 4243 rural respondents. This was a pan-India survey. In urban areas, the sample was spread amongst relatively upper-middle and high-income earners (35%) who are referred to as occupation category 1, relatively middle and lower-middle-income earners (34%) who are referred to as occupation category 2, and relatively low-income earners and economically weaker sections (31%) who are referred to as occupation category 3. In rural areas, the sample covered relatively affluent earners, including medium and large farmers (38%), relatively middle-income earners (39%), and relatively poor earners, including wage labourers (23%). These broad economic profiles, like in the case of urban, are referred to as occupation categories 1, 2, and 3 respectively. Further, the urban sample covered only earners. Permanent government employees eligible for pensions were excluded. HNIs and very poor earners without phone access are likely to be under-represented. Similarly in rural areas, only earners were covered and permanent government employees eligible for pension were excluded. Very large farmers and extremely poor earners without phone access are likely to be under-represented. The sample covered 5734 respondents aged between 18 and 35 years, and 6433 respondents aged 36 years and above.

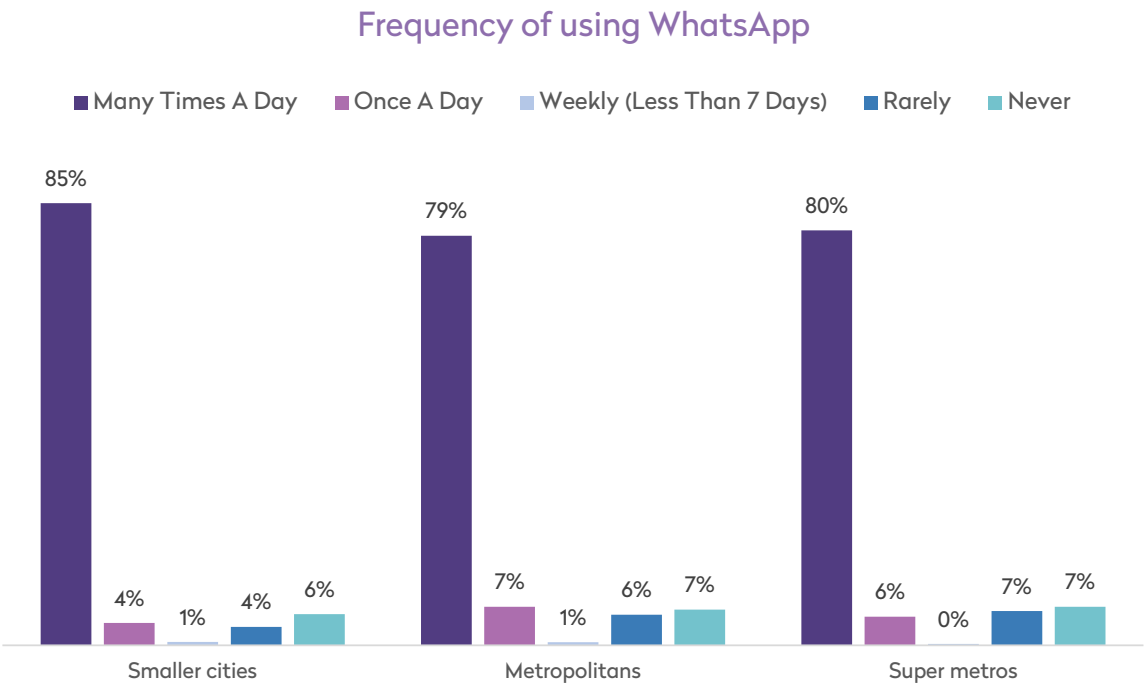
Part 1

Digital Connect

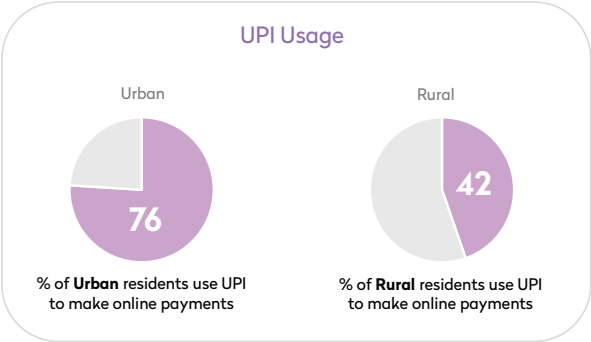
Even though **e-mail connectivity in rural areas is almost half that of urban,** nearly **2 out of 3 in rural areas stay connected through WhatsApp.** Interestingly, the frequency of using WhatsApp in metropolitan cities is about the same as in off-metro cities having a population between 1 and 10 lakhs.

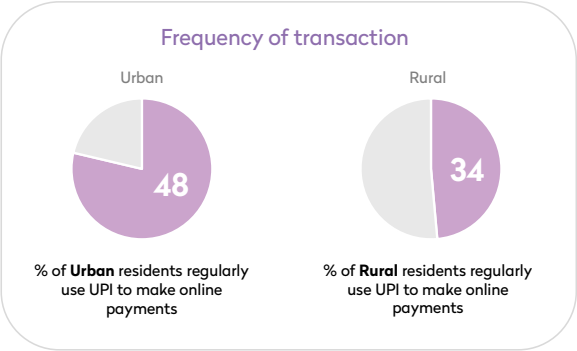




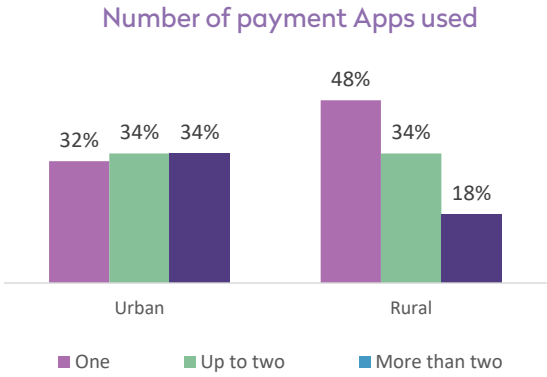


The survey revealed that 3 out of 4 urban residents use UPI to make online payments. This figure is about 40% in rural areas. Of those who use UPIs or any payment gateways of banks, about half in urban areas and a third in rural areas are regular UPI users. 68% of urban users and 52% of rural users use more than one UPI app.





Across urban and rural India, as of date, around 2 out of 3 persons across both the urban and rural samples had already linked their phone numbers to their Aadhar cards.

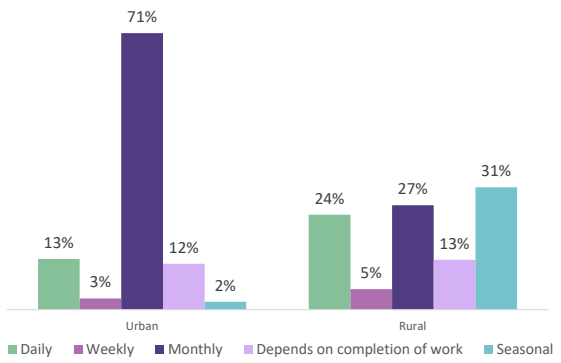


Part 2

Earnings and savings profile

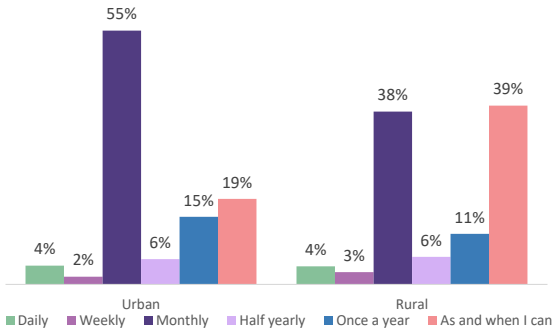
In urban areas, most people get paid on a monthly basis (driven by salaried employment), while in rural areas, it is split between daily wage payments, seasonal earnings (from agriculture), and monthly payments.

How frequently do you earn?



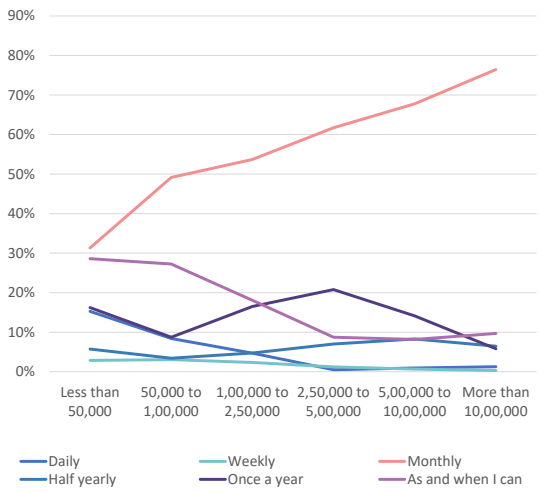
Similarly, on the savings front, most urban residents save monthly while rural residents tend to save when they can.

How frequently do you save?



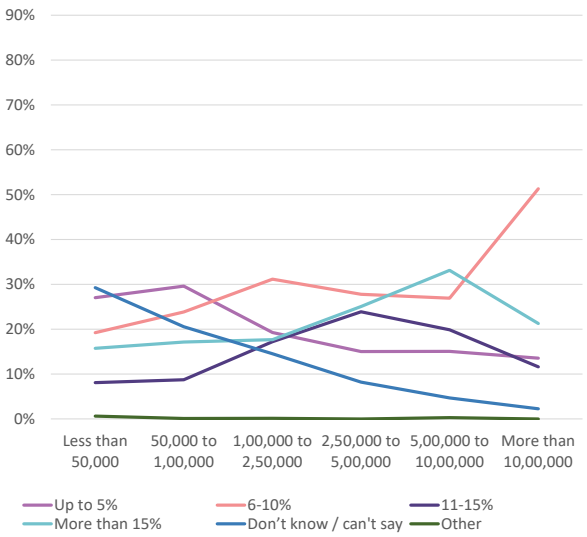
Higher-income earners from urban areas prefer to save on a monthly basis because of stability in their earning pattern, while lower-income earners prefer to save as and when they can.

Annual income vs frequency that one should save at in Urban India



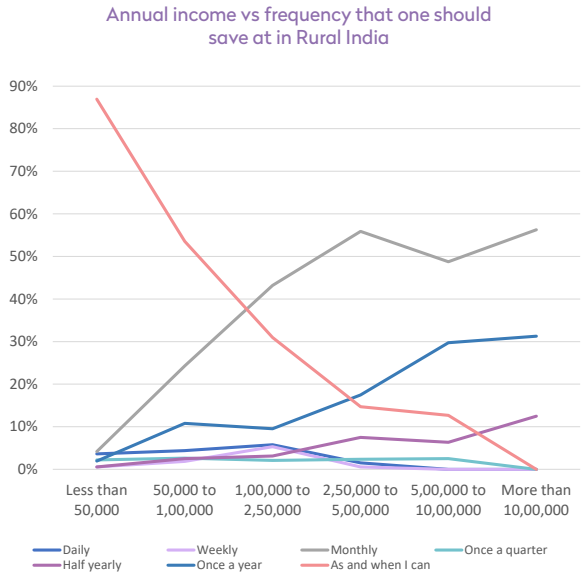
Across most income groups, the preference is for saving 6-10% of income; the lowest income group prefers less than 5% while higher earners tend to prefer 6-10%.

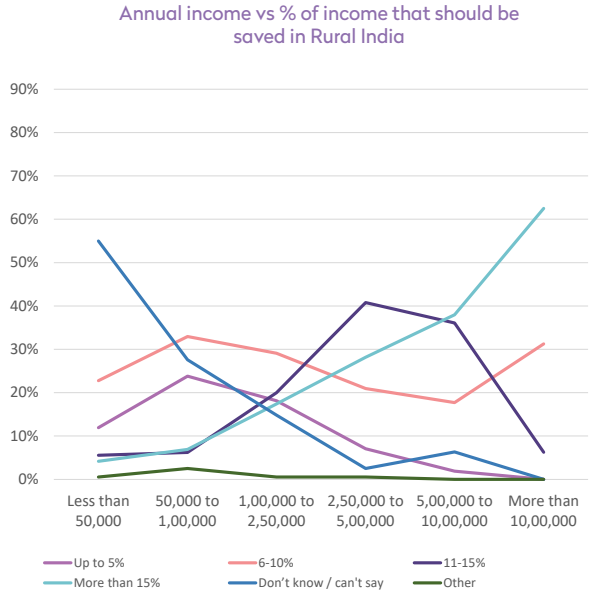
Annual income vs % of income that should be saved in Urban India

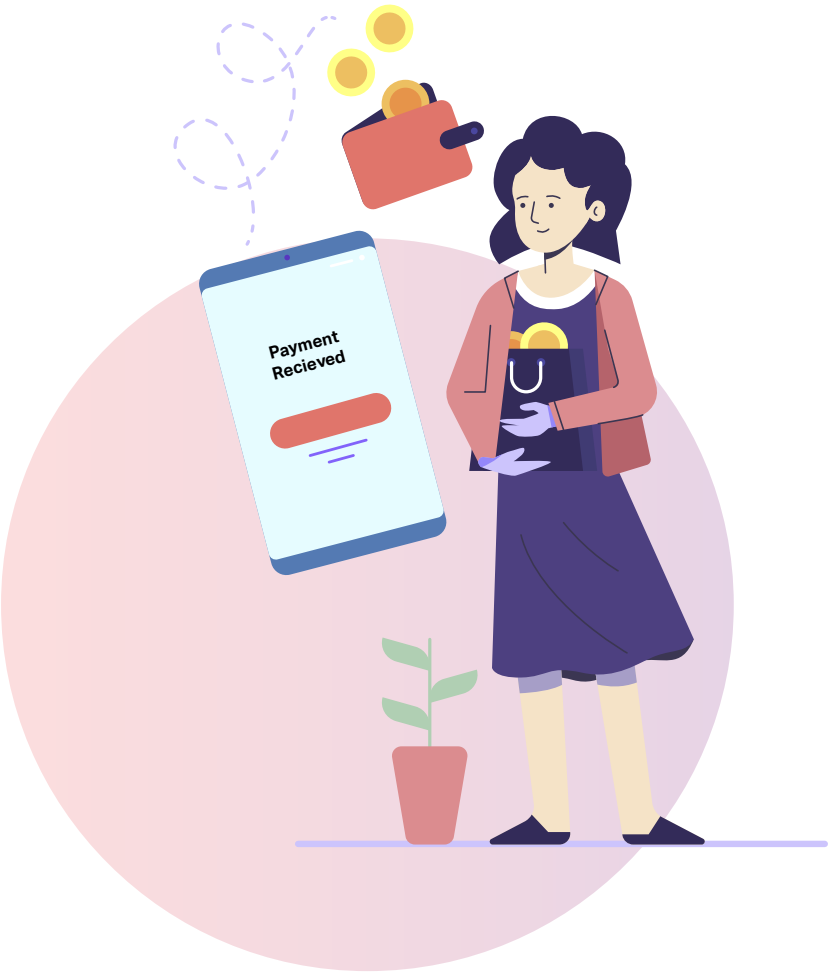


In rural areas as well, higher-income earners prefer to save on a monthly basis and lower-income earners prefer to save as and when they can.

Most of the lowest income group do not have an opinion on how much to save, while those with money would like to save more than 15% of their income.







Part 3

Retirement Outlook

While most earners across urban and rural areas tend to believe that retirement savings should commence towards the middle or late twenties, this is not wholly reflective of their actions.

In reality, less than 80% of urban residents and 60% of rural residents are presently saving for their old age.

Age at which people should start thinking about old age financial security?

Urban

26

years is the median age when **Urban** India feels people should start thinking about old age financial security

Rural

28

years is the median age when **Rural** India feels people should start thinking about old age financial security

Are people saving for retirement now?

Urban

79

Percent of urban residents are currently saving for retirement from work

Rural

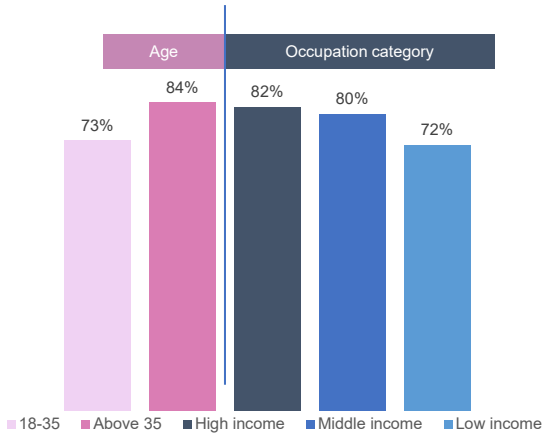
60

Percent of rural residents are currently savings for retirement from work

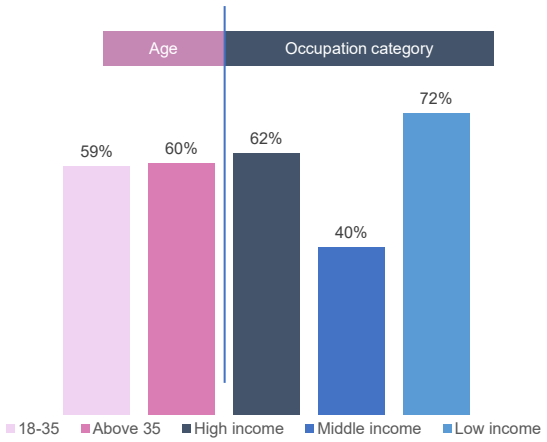
In urban areas, those above 35 have a greater propensity to save for old age than those who are younger. This distinction is not present in rural India.

Unlike in urban areas, in rural India, it is the poor who tend to set aside money for the future whenever they can, possibly because of their uncertainty of a steady income.

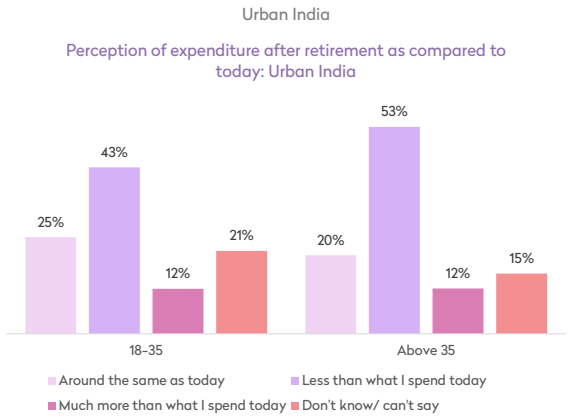
Proportion of **urban** residents who have started putting aside some savings for old age

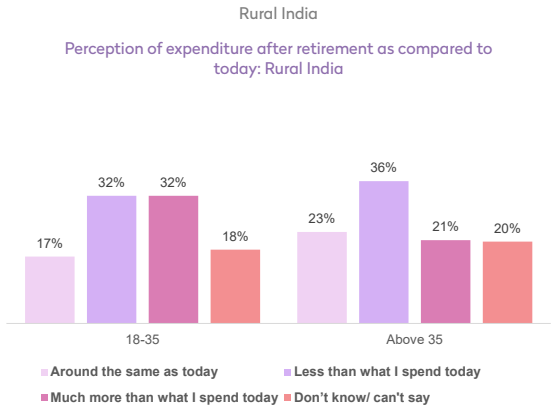


Proportion of rural residents who have started putting aside some savings for old age



Most urban earners, irrespective of age, tend to believe that their post-retirement expenditure will be lower than what they are spending today. While this is also true for rural citizens, the exception is that a higher proportion of earners in rural areas think that their expenses could increase by the time they retire from work, as compared to their urban counterparts.





Universally, the older age group tends to believe that their children would take care of them in their old age, but this sentiment is not reflected in the view held by the younger earners, more so from the higher income bracket.

	Occupation category 1		Occupation category 2		Occupation category 3	
	18-35	35+	18-35	35+	18-35	35+
Expect my children to take care of me in old age	URBAN					
	49%	57%	49%	56%	57%	66%
	RURAL					
	28%	57%	44%	56%	35%	45%

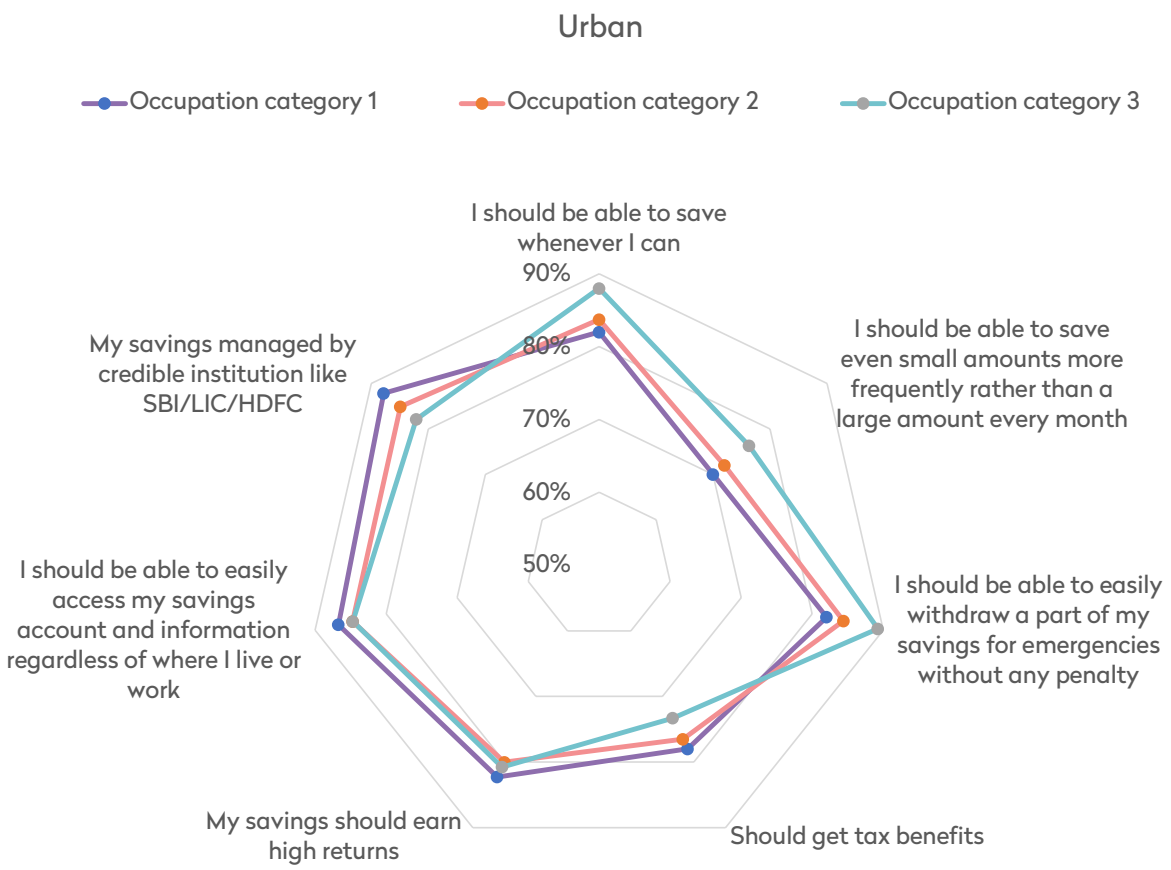
As expected, there was a positive correlation between earnings and confidence in the ability to accumulate adequate savings to support themselves in their old age. However, the more important data finding is that in rural India and among the lower income category, less than a third of the earners have the confidence to be able to save adequately to support themselves in their old age. It may be recalled that this is also the category where the least proportion of active earners expected that their children will be their financial support in old age. Overall, this spells a serious concern for India where the Directive Principles of State Policy, enshrined in Part IV of the Indian Constitution, reflects that India is a welfare state.

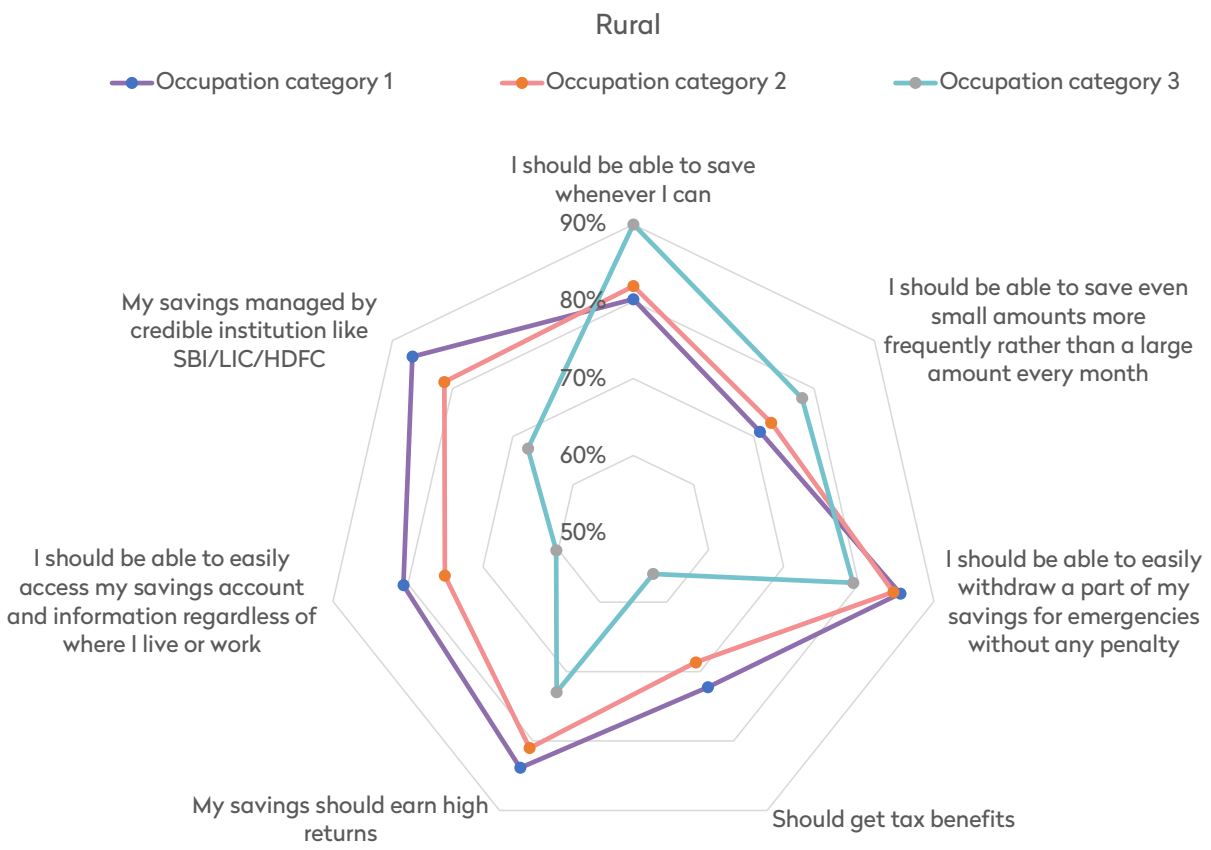
	Occupation category 1		Occupation category 2		Occupation category 3	
	18-35	35+	18-35	35+	18-35	35+
Will have saved enough to support myself	URBAN					
	65%	77%	64%	73%	53%	58%
	RURAL					
	48%	56%	57%	59%	30%	32%

Part 4

Preferred features of a long -term retirement instrument

In order to gauge the importance accorded to individual features of a savings instruments the likes of which are available under the NPS, a series of relevant statements that describes a number of features for a savings plan were read out to the survey participants one after the other and for each, they had to indicate how attractive you find it.





It would seem that liquidity is paramount for all savers as they do not want their money to be locked in; this is especially true for the low-income earners from urban India. Having the flexibility to put in deposits as and when they can and in small increments is also important for the low earning workforce. Tax benefit is a preferred feature of urban India and not rural. Being managed by a credible institution is a feature that is important for urban residents and high-income rural residents; not so for the low-income workforce in rural India.

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