Assessing the Need and Feasibility for Using Pre-Paid Card Technology in Delivering Added Services to Micro Finance Customers in selected Regions of Uttar Pradesh

Final Report

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Project Abstract

The overarching objective of the present study is to assess the need for using pre-paid card technology for delivering added financial services like insurance claim settlements including death claim benefits in a transparent manner for the customers of Micro Finance Institutions (MFIs) in selected regions of the state of Uttar Pradesh of India. We try to elicit the factors determining such need, not met at present, by surveying actual and potential beneficiaries of Micro Finance Institutions and the providers including insurers, pre-paid card providers, and MFIs. The major findings of the study indicate the following. On the supply side this innovation by Bajaj Allianz Insurance India, M2P Solutions and Utkarsh Micro Finance has been successful in including those excluded earlier due to lack of access to formal banking. The cards have facilitated smooth settlement of insurance claims for these micro finance clients meeting the current regulatory requirements by both the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority of India (IRDAI). The results of factor analysis and insights from in-depth interviews suggest few factors such as access, perceived ease of use, perception of financial risk protection, and societal image to be important in designing such innovative products. The financial literacy efforts made by the Micro Finance Institution has been enhanced by this pre-paid card innovation. There is enough potential for scaling up this innovation in the micro finance sector in India at present.

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Introduction

Technology has changed the way individuals access financial services and interact with financial service providers. More specifically, in the last decade in India , banks and financial institutions (FIs) have changed their operations and moved towards universal banking along with the increased usage of technology and technology-based services offering alternate channels such as smart cards, ATMs, usage of the internet, mobile and social banking. Additionally, technology has also facilitated better functioning of allied areas of like human resource management (HRM), enterprise risk management, and process re-engineering etc, to improve performance and productivity. At present, all most all banks and financial institutions insist on cashless and paperless payment transactions. In addition to that, the spread of mobile technology has paved the way for a new era and new experience of financial services in India. The increased use of technology has helped people doing many basic transactions, such as fund transfers, bill payments, and more, without entering to the brick and mortar bank branch. On the other hand, technology is often cited as one of the greatest challenges faced by Micro Finance Institutions (MFI) in India. India has different models of MFI and the two dominant models are Non-Banking Financial companies based MFIs and Self Help Group Bank Linkage programmes. The latter is largely through public sector banks under priority sector lending. But use of technology in MFI transactions has not taken off. The MFIs use their management information system for internal management but not in customer dealings/transactions. There are very few experiences where with support of the National bank for Agriculture and Development(NABARD) organisations like Leaps and Bounds help the self hep groups maintain their group accounts using a tablet both in English and vernacular languages. Apart from this technology is not being used in the added services like credit linked insurance and other insurance products for the MFI customers. A study by

Acharya and Bisht (2012) on factors affecting micro insurance uptake in Odisha found low levels insurance literacy and complicated ways of settling claims by MFIs. The respondents in our survey observed that they had to pay the outstanding of loan first and the claim was settled after the payment. The MFI customers belonging to the poorest class had no clue on a potential transparent settlement of claims. This type of opaqueness in claim settlements ought to discourage the beneficiaries from going for additional insurance products like health, cattle and crop etc., in the micro insurance segment. From the insurance providers' perspective there is immense business potential at the bottom of pyramid i.e. the MFI customers. The study by Acharya and Bisht (2012) also found conflicts of interests among different stakeholders. First, risk carriers/insurance companies do not develop products keeping the poor in mind rather they float products with exclusion clauses to minimize claims in general. The kind of products they develop therefore is not socially sustainable. In the business of micro insurance it's only the insurance companies that reap profits not the MFIs or NGO-MFIs. The poor don't benefit since they are forced to buy products that they don't require as such. Finally, the insurers/risk carriers are in the micro insurance business primarily to fulfil the social obligation clause stipulated by IRDA. Despite the observed conflict of interest in our study the potential benefits of different insurance products cannot be denied in an evolving market for the poor like India. This is where technology in general and use of pre-paid cards can be handy in making insurance accessible to the poor. The pre-paid cards can be used for settling death claims and maturity payments in case of credit linked life insurance products for MFI customers, and also in payment of premiums by the MFI customers. This practice can also be extended to other micro insurance products.

Use of Technology in Financial Services in India

In the Indian context a number of innovations has taken place in the last few years as far as banking is concerned. *Mobile banking* has become popular in general and partially for the poor. The industrial workers who have migrated from rural areas have been using the services for remitting money to their relatives. This has partially replaced the traditional remittance methods. The services documented in this context are services by SBI TINY, and EKO to quote a few. State Bank of India, with its 16,000+ branches in rural and urban India, and 'A Little World' (ALW) have launched a mini banking system called 'SBI Tiny' reaching beneficiaries at their door step. The SBI Tiny card provides easy banking services for underprivileged communities. For this programme the SBI ties up with NGOs that play the role of 'Customer Service Providers' (CSP) or rather work like a local branch. The aim of this unique scheme is to cover as many of the poor unbanked population in the country as possible. The SBI Tiny account does not require `KYC` (or Know Your Client) documents and can be opened with zero balance. In this account one can deposit or withdraw between Rs.10/- to Rs 10,000/- the upper limit for this account is Rs.50,000/-. The SBI Tiny card provides more accessibility and customer trust, making it easier to build relations with its customers. This card which functions like a normal savings bank account, helps to enhance savings behaviour. It also offers easy "Money Transfer Service" to anywhere in India. A study of SBI TINY by Acharya (2013) for urban poor in Hyderabad found marginal improvement in the financial literacy levels of the SBI TINY users over a control group.

ATMs like "Gramateller" have been successful in easing access to banking services without physical recourse to the bank premise for the rural people in general and the poor in particular. ATMs with operating instructions in vernacular languages facilitate the access by poor with reading ability. Biometric enabled ATMs handling soiled/old notes have brought more illiterate people to the banking fold to access banking with trust in transactions. For the urban poor and illiterate the green channel or point of sale in bank branches has been helpful for making transactions. Further, technology innovation could enable banks to "go-to-customers" and enable door-step banking through virtual banking. For instance, cloud computing and big data technologies can reap both scale and scope economies. What is important is not the name of the technologies, but what they eventually do.

Possibility of Card Based Microfinance Services

One can see many similarities between credit cards used by middle and upper income individuals and microcredit services delivered to the poor. Some of the common characteristics include unsecured credit for unspecified purposes, small transactions, and predefined credit limits. Other salient features of credit cards, which many microfinance clients potentially would like their providers to duplicate, include on-demand borrowing, a re-draw facility, and repayment flexibility within predefined guidelines and some added services like micro insurance services. Hence, pre-paid card based services for micro finance customers can prove to be a good alternative to cash transactions or even mobile based transactions.

Objectives

In view of the above, the overarching objective of the present study is to assess the need for using pre-paid card technology for delivering added financial services like insurance claim settlements including death claim benefits in a transparent manner for the poor customers of Micro Finance Institutions in selected regions of Uttar Pradesh of India. The regulatory changes by the Insurance regulator (IRDAI) and the Bank/NBFC-MFI regulator (RBI) have prompted the insurers and MFIs to make use of appropriate technology to make claim payments directly to the nominee of the micro finance client. In our study, the preferred technology has been pre-paid cards due to regulation as well as preference of the clients for this technology instead of any other medium like mobile phones.

Accordingly, the following specific objectives are formulated.

1. To assess the need for using pre-paid card technology for delivering added financial services like insurance claim settlements including death claim benefits.
2. To examine the supply side issues in introducing and scaling up such card based services given the present regulatory environment in India with multiple regulators that include the Insurance Regulatory and Development Authority (IRDAI), Reserve Bank of India (RBI) etc.

Project Activities

The project was primarily motivated by continuous interactions of the P.I. and the Co P.I. (a banker by profession) with insurance executives working with Micro finance institutions. The ensuing inclusive policy changes in India in the financial sector targeting the low income strata of the society also added to our motivation. With the advent of direct benefit transfers initiated by the Government the current issue of micro finance beneficiaries did merit attention. The time of the project also coincided with the prepaid card innovation by the three major stakeholders i.e., Bajaj Allianz Insurance, Utkarsh Micro Finance and M2P Cards. The project has gone through three major phases. In the first phase relevant literature and policies were reviewed. Relevant literature in the broad domain of technology acceptance by poor in general and by microfinance customers in particular have been reviewed. Data on micro finance and micro insurance have been collected from handbooks of the IRDA and other reports to set the background. Regulation being the important aspect of the study, the relevant policy circulars of IRDA and RBI have been analysed. The implications of the present multiple regulatory environment for technology driven financial inclusion are analysed. The stakeholders were given the details of the project and they formally consented to be the knowledge partners. The questionnaire and in-depth interview guides were reviewed by IMTFI reviewers. The second phase involved in-depth interviews with senior managers of the insurance, card, and micro finance companies dealing with the prepaid card project and a pilot with micro finance beneficiaries. The first three visits by the P.I (and Co-P.I.) were made to Head offices of the insurance company, the micro finance institution and the cards company to interview the key officials. In addition to this, two field visits were made to Varanasi to interview and survey micro finance customers. The preliminary findings have been presented in 7th annual conference of IMTFI during April 19-22, 2016. The exposure to other presentations and the workshop have been of immense help to work better in the field. In the last phase, a primary survey was conducted with the micro finance beneficiaries who availed this card and others who had the potential to use this card. Two Research associates worked on the project with few other field investigators in the field. The PI also visited during the survey and conducted few more in depth interviews with motivated micro finance beneficiaries.

A Brief Review of Literature and Policies

In this section a review of some past studies in line with the ideas presented above, though not exhaustive, is attempted. In a study Diniz (2008) discusses how the use of correspondent banking (CB) arrangements can help Brazilian banks to face the above discussed challenge and increase their micro credit operations in an efficient way. The particular model of CB adopted in Brazil since 2000 has created an ICT-based business structure for banks beyond traditional branches, typically in retail stores such as supermarkets, drugstores, lottery shops, post offices, and so on. The discussion is on how this ICT-based channel can be adapted to scale up micro credit delivery. The study focuses on one particular case, involving a CB arrangement between Banco do Brasil, one of the most important Brazilian banking institutions, and Banco Palmas, an accredited micro finance institution. This specific case provides an example of how the Brazilian ICT-based CB model can be used to help scaling up micro finance services, especially micro credit.

Rai (2012) describes that in spite of use technology, microfinance has not been able to reach to the poorest of the poor particularly in the low density population areas of Madhya Pradesh, Odisha, Bihar, Uttar Pradesh etc., in India. The main reason behind this gap is the cost of credit delivery. Information and communication technology (ICT) is an important driver bringing with it fundamental changes to the microfinance delivery mechanisms. This research is at the intersection of inquiry on ICT for development and the digital divide, the impact of microfinance, and the use of ICT in the financial services industry.

Nandhi (2012) studies the *simpli bank* model of EKO in Indian states of Delhi and Bihar to find impact of mobile banking on individuals' saving behaviour. The study finds that the ability to save improved for a majority of users through EKO mobile banking in comparison to earlier practices such as keeping cash on hand. EKO mobile banking is found to be a very effective, safe, and trustworthy savings instrument for its users.

Acharya (2013) examines cases of urban poor of Hyderabad city in using smart card based services in disbursing social security payments, mobile based money remittances by SBI TINY. The financial literacy and service specific quality perceived by the urban poor is found to be marginally better compared to a control group

Omwansa and Waema (2014) study the experience of Musoni, the Kenyan MFI in using mobile money to deliver micro finance services including loan disbursement, repayment, and savings. The authors found the uptake to be impressive in this Musoni-M-Pesa endeavor to make individuals use mobile money for all their micro finance needs. Using qualitative and quantitative approaches together the authors establish that mobile money apart from complementing the brick and mortar MFI operations yield an increase in savings by MFI customers was more valuable when bundled with other products. There is an increased shift to mobile money for other added transactions.

Nelson and Isaboke (2014) in their IMTFI funded study analyse the yuCover micro insurance scheme in Kenya. Lack of awareness, trust & diversity and poor perception along with low literacy levels come up as the main deterrents to the uptake of demand for yuCover. The authors suggest developing alternative distribution channels, new partnerships, new product varieties & new marketing strategies, besides running literacy campaigns to overcome these barriers.

Another study by Kusimba, Kunyu, and Wanyama (2015) throws light upon the use of mobile phones, and mobile money in particular, during a coming of age ceremony of adolescent males among the Bukusu ethnic group in Bungoma, Kenya in 2014. The major findings of the study are: (a.) Mobile phone communication was widely used to plan & make arrangements for the ceremony, (b.) Despite the ever-growing numbers of mobile phone subscribers, mobile phone could not completely replace face-to-face communication, (c.)Mobile money is an important part of the ceremony.

On the Indian policy front, the initial guidelines on "Issuance and Operation of Pre Paid Instruments (PPI)" were issued in April, 2009 as a consequence to the passing of Payment and Settlement Systems Act, 2007. Banks and non-bank entities have started issuing pre-paid payments instruments (PPI) in the country after obtaining necessary approval/authorization from Reserve Bank of India (RBI) and operating within the guidelines issued by it. RBI defines PPIs as those that facilitate purchase of goods and services, including funds transfer, against the value stored on such instruments. The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card. These can be issued as smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers and any such instrument which can be used to access the pre-paid amount. PPIs are classified under three categories in India: 1. Closed System Payment Instruments. These are payment instruments issued by a person for facilitating the purchase of goods and services from him/it. These instruments do not permit cash withdrawal or redemption. 2. Semi-Closed System Payment Instruments. These are payment instruments which can be used for purchase of goods and services, including financial services at a group of clearly identified merchant locations/ establishments which have a specific contract with the issuer to accept the payment instruments. These instruments do not permit cash withdrawal or redemption by the holder. 3. Open System Payment Instruments can be used to purchase goods and services, including financial ones and permit cash withdrawal by the holder in ATMs. Banks are permitted to issue prepaid instruments to other financial institutions for credit of one-time/periodic payments by these organizations to their customers subject to the following conditions;(1) Banks shall satisfy themselves about the adequacy of the KYC practices followed by these organizations before issuance of these instruments, (2) These payment instruments shall be loaded / reloaded only by debit to a bank account, maintained by the financial institutions with the same bank. The maximum value of such payment instrument shall not exceed Rs. 50,000/-, (3) Banks shall facilitate transfer of funds from such payment instruments to a regular bank account of the beneficiary, if asked for. The banks shall be responsible for all customer service aspects related to these instruments. The confidence of public and merchant establishments on pre-paid instruments schemes depends on certainty and timeliness of settlement of claims arising from use of such instruments. Non-bank entities issuing payment instruments are required to maintain their outstanding balance in an escrow account with any scheduled commercial bank subject to certain conditions, some are listed below:

(i) The escrow balance must be necessarily maintained with only one scheduled commercial bank at any point of time. If there is a shift, the migration should be done in the minimum possible time and with prior approval of RBI.

(ii) The balance in the escrow account should, at no time, be lower than the value of outstanding PPIs and payments due to merchants. While as far as possible PPI issuers should ensure immediate credit of funds to escrow on sale / reload of PPIs to end-users, such credit to escrow account should not be later than the close of business day (on which the PPI has been sold / reloaded) under any circumstances.

Micro insurance started as a regulatory requirement for the risk carriers in India. At a later stage this segment proved to be a profitable business for the risk carriers, i.e. the insurance companies. Micro Insurance Regulations, 2005 have allowed NGOs and SHGs to act as agents to insurance companies in marketing the micro insurance products. Micro Insurance Regulations, 2015 permitted several more entities like BCs of Scheduled commercial banks, District Co-operative banks, RRBs, UCBs, Primary agricultural co-operative societies, other co-operative societies, RBI regulated NBFC-MFI's to improve penetration of Micro Insurance. A snapshot of micro insurance business in India presented in the figure 1 and 2.

Most of the micro insurance business falls under credit plus scheme wherein the MFI as a master policy holder covers the life of its clients to recover the outstanding loan amount for itself and to return the paid principal to the client or its spouse in case of death of one of them. Over time the volume of such business and claims settled has significantly increased. The claims used to be settled by cash after recovering the outstanding loan from the customer. However, the IRDA regulation (Dec, 2014) mandated direct payment of the balance (sum assured-loan outstanding) to the nominee. The outstanding loan goes directly to the MFI. This is known as SPLIT PAYMENT.

The Field, Data and Method

The present study is on the poor customers of Micro Finance Institutions in the state of Uttar Pradesh of India. Uttar Pradesh is one of the poor states in India with large micro finance network. It's a state with population of 199.8 million, 67.68% of literacy and with 24.93% of the population living Below Poverty Line. About 22 MFIs operate in the State with total MFI Client Outreach of 226416. The total MFI Portfolio Outstanding is Rs.2, 69, 744 lakh. The MFIs cover 70 districts in the State and relatively poorer districts are about 24 in number. Data was collected from 15 different centres of operation of our micro finance knowledge partner (Utkarsh) around the city of Varanasi and the sample size was 201. Beneficiaries were randomly selected from each centre in the morning hours when they typically gather for centre meetings and when they come to the branches for depositing loan instalments or collecting loan disbursements. About 10 in-depth interviews were conducted with motivated beneficiaries out of this sample. The beneficiaries are either women or their spouse since both are covered by credit plus insurance.

The methods employed included in-depth interviews with the three knowledge partners, salient belief elicitation of microfinance beneficiaries through a structured questionnaire followed by factor analysis and in-depth interviews with 10 motivated microfinance beneficiaries. To understand the providers' perspective the selected knowledge partners were interviewed with a brief semi structured questionnaire probing into different supply side issues keeping in mind the current regulations in India. Salient beliefs are those that come to mind of the respondent first when they are asked open-ended questions. Salient behavioural beliefs are the beliefs about the consequences of performing behaviour which are held to determine attitude towards the behaviour (Sutton, 2003). A brief review of this method is presented in the Appendix-I. The study in the pilot stage elicited beliefs by asking a set of questions and in the second stage finalised a set of 46 questions. These questions/statements/items referred to the beliefs of the beneficiaries with regard to perceived use of the pre-paid card for insurance and other services, cost of the card, image perceptions, and cost etc. The questionnaire was executed in vernacular language i.e. Hindi and in most of the cases the field investigators explained in the local dialect, Bhojpuri. Responses were collected in a Likert type seven point scale from strongly disagree to strongly agree. Finally, these responses were coded and then subjected to factor analysis to settle with the final set of beliefs or factors important for scaling up such pre-paid card services.

Study Results

The Supply Side

The three key findings from the supply side are; (1) The regulation driven innovation of pre-paid cards have substantially benefited the micro finance clients, (2) Prepaid cards have immense potential to be scalable by many other small and medium MFIs to deliver added services like loan disbursement, collections and insurance claim settlements. This also helps in circumventing difficulties in use of cash such as robberies, theft, and unnecessary spending by the clients, (3) Clients seem to be comfortable in using a tangible instrument like pre-paid cards as a substitute for cash transactions. This may have something to do with the beliefs of these rural clients in perceiving benefits of a particular technology or instrument who for instance don't believe in using new notes. Soiled notes are preferred to new currency notes since the later are have not been used before. An analysis of the **evolution of the claim settlement** indicated the following stages. The first stage being the traditional/conventional mode involves collection of documents by the MFI from clients post death of the insured and submission of these documents to the insurance company. The claim is then adjudicated by the insurance company and the payment is processed by cash/ cheque through MFI. Here, the MFI gives the cheque to the beneficiary/nominee only after loan outstanding is cleared by clients. The difficulties relate to compulsion on part of MFI customers to clear the outstanding first, issues regarding transparency in the claim settlement process, and the RBI mandate on cash payment up to Rs.10,000/- only. The second stage is about settlement through Electronic Funds Transfer (EFT) to Beneficiary bank A/C or Cheque. This process entails crediting of outstanding loan to MFI's account and clients are paid by cheque or EFT. But the MFI client needs to have a bank account to realise the payment. In this process MFI clients should have bank Account. In the present case many cheques issued remained unrealized simply because the clients didn't have bank account. Access to banks still remains an issue despite several inclusion efforts due to several factors and distance being the major underlying factor. In the third stage claim is processed on SPLIT PAYMENT basis wherein the MFI gets paid the loan outstanding by EFT and microfinance customer's nominee gets the balance paid by a pre-paid card (issued by M2P-DCB VISA in this case). This balance is net of any funeral assistance paid by the MFI to the client or client's nominee.

The process of Pre-paid card based settlement in this stage directly benefits the nominee, unsettled claims are reissued and fresh claims are processed by pre-paid cards. The payment ceiling being enhanced to Rs. 1 lakh by RBI Regulations makes this process even more viable for the supply side benefitting the customers.

The Demand Side and Analysis of Microfinance Clients' Data

Basic Demography

The sample respondents include 91% female and only 9% male, as all micro finance clients are women. But micro insurance covers the women and their spouses. In our sample 9% male refer to those who visited the centres either to collect/deposit loan instalments on behalf of their spouse's behalf or to collect their pre-paid insurance claim settlement cards. The age group of the sample varies from 20 to 65 years, with 90 respondents in the age bracket of 30-40. Though the occupational structure of the sample indicate 15 different types, most of them worked in agriculture and petty shops. In the sample, 17% of the respondents had annual family income of less than Rs 22,000, whereas 35% had annual income in the bracket of Rs 23,000 - Rs 50,000, followed by 28% in the bracket of Rs 50,000-Rs 75,000. About 20% had annual income more than Rs 75,000/-. This 20% had little higher income probably due to the proximity of some of the rural MFI centres to the Varanasi city. Most of the respondents had primary education of some level. The results indicate that most of the clients bought insurance bundled with their loans of different sizes in the year 2014. But the awareness of insurance has been present since 2007. The concept of renewing insurance is not very relevant in this sample since these insurance policies are primarily to cover loan in case of client's death. In every loan cycle of the client, provision of such insurance is present. The premium paid by the client is typically 1% of the loan amount. There are about 6000 deaths per 10lakh of clients covered in a year. Most of the deaths are caused by some disease or the other. The summary figures are presented in table 1.

Results of Factor Analysis

As detailed in the method section above the factor analysis was carried out on scores collected on the 46 items using SPSS. Orthogonal (varimax) rotation was used to obtain a stable factor structure containing factors with eigenvalues greater than 1. Under a four -round factor analysis, a variable deletion process was undertaken.

The first round yielded ten factors explaining 64.9 per cent of the variance. About eleven items were removed with low loadings. The second round of factor analysis produced 10 factors that explained 69.450 per cent of the variance. At this stage, 14 items were eliminated. The round three yielded 6 factors explaining 65.36 per cent of the variance. At this stage, seven items were removed for further analysis. Finally, a four factor structure was found i.e. financial risk protection perception, image in the society/societal image, perceived ease of using the card. These factors together explained 72.418% of the variance. A high Cronbach's alpha yielded satisfactory internal reliability. The other statistics such as KMO's measure of sampling adequacy and Bartletts' Sphericity are presented along with the final factor structure loadings in table 2. Both KMO and Bartlett test are as expected for a sound and reliable factor analysis. The following were the final factors.

- ***Financial Risk protection perception:*** This factor relates to the client's perception about the general usefulness of the pre-paid card for risk management and mitigation.
- ***Societal Image:*** This factor relates to the image of the beneficiaries as a result of pre-paid card's usage. The items correspond to the improved image of beneficiary in society and the prestige associated with the card's usage.
- ***Perceived ease of use:*** Here the clients seem to be expressing their self-efficacy or confidence in themselves in getting and using this card for faster claim settlement..

- ***Access:*** This factor refers to the issues of access to such a pre-paid card and the place of its availability and the process involved to get it.

Insights from in-depth interviews

The insights from in-depth interviews confirmed the factors obtained in the previous sections. These clients were benefitted by the use of cards since their claims were pending for the change in regulation not allowing the Insurance Company to pay in cash. A good number of cheques towards claim settlement could not be realized because of lack of bank accounts on part of the clients. Alternative payment methods like mobile was found almost non-existent/not preferred by the rural folks. For instance the Vodafone M-pesa has not really taken off in this region among the rural folks. Mobile is primarily used for communicating with family members. It's also used for recreation/entertainment in case of those having cheaper smart phones. Most of the connections are prepaid, facilitating very small recharge like Rs 10. Even with a plethora of inclusive policies, rural folks in general and the micro finance customers do not have bank accounts. The banks are at a distance of 15 kilometers from their places in some cases and the average distance is about 5 kilometers.

Mobile money being intangible leads to issues of trusting the mode of payment like the new versus soiled notes discussed earlier. For example *Kusum from the village of Bhatauli says "I don't believe in new notes since the MFI agent once refused to accept since the metallic part was out from the new currency note I carried as part of my currency bundle to deposit my fortnightly instalment. The new notes have not been used before and I don't know if they are genuine. I think many of my friends share this feeling too"*.

There were about seven cases of settlement of claims by cards witnessed by the P.I. since the distribution of these cards coincided with the project's field visits. Almost all of them used the card for the first time though they had seen such cards like ATMs before. None of them had bank accounts and ATMs before. Their perception of the utility of such cards were very positive. In these cases the claim amounts withdrawn from the nearby ATM machine was in the range of Rs2500/-Rs7000. One could see the awareness of insurance among the clients. Each one of them knew how much was paid as premium and the purpose for which it was paid. This could be attributed to The MFI's (Utkarsh) financial literacy drive by executives specifically appointed for training clients in literacy. One example is that of a pledge taken by the members at end of each centre meeting to adhere to financial discipline of spending the loan amount on the activity for which it's taken, paying the fortnightly instalments on time, spending income earned on family's wellbeing, not applying for loan beyond one's repaying ability, helping each other at bad times (reflecting the "mutuals" concept). The MFI representative also reciprocates to this pledge by promising to advance loans on time (see figure 4).

Some beneficiaries also feel that cards being tangible are better substitutes of cash. They feel they could store their cash in this mode and use when they need. The need based transactions make them save a bit more in the process. This implies the possible replication of card based services for even collection and disbursement of loans by MFIs. Mr Bihari, spouse of a woman client says, *"I think I overspend if I have cash. If I have money in my card I will spend when I need and save the rest".* This utility expected by Mr Bihari may not be available in the present pre-paid card. But this speaks of need for technology to factor in the attributes desired by a potential client. Utkarsh, the MFI has also set an example in this region by discouraging cash transaction by its street executives to avoid robbery, theft etc. Both collection of loan disbursement and deposit of instalments of groups are taken up by the group leader. The group leader contacts the nearest MFI branch to complete these transactions.

There is a strong desire to save, avoid excess cash at home, and use technology. The beneficiaries in our sample also belonged to some other MFI. Some of them were also aware of products sold by other MFIs. For example a respondent Kusum showed us the loan book of her friend, a client of another MFI, wherein tiny savings were collected by the MFI if the client wished to do so. She also wanted to avoid keeping excess cash at home which could be kept safe elsewhere or could earn some interest.

One could also see the potential problems of using a new instrument such as this card by these users. First, ATMSs dispensing cash belong to different banks and possess different display features. Secondly, the cards used in these machines are either credit or debit cards. The accounts are also different types. Finally, the currency dispensed by the machine are sometimes limited to relatively higher denominations. For example, some machines do not dispense notes of Rs100/- denomination. In such cases some quick user guides for these pre-paid cards would help the users to effectively use the card. Another problem noticed was claim amounts not rounded off and the client loosing couple of Rupees. If the claim amount is Rs5329/- the machine will not dispense Rs29/- which would be a loss to the client. But the MFI executives were aware of this lapse and there was an attempt to correct this in the next lot of cards by rounding off the amount to benefit the client.

Conclusion and Scope for Further Research

The results of the factor analysis and in-depth interviews presented in the previous section highlight prevalent literacy levels among MFI clients on insurance, technology, policies and products of competing MFIs in the region. There seems to be tremendous potential for providing useful insurance products of different varieties to the clients. The pre-paid card technology could also be scaled up to include disbursement of loans and collection of loan instalments to replace cash transactions. Mr Arvind Kumar, Head JLG support, Utkarsh says, *"As a leading MFI we believe in cash less transactions to avoid inconveniences including theft and robbery. The Utkarsh example has been recognized well by the local law and order authorities".* However, the changing environment of micro finance business raises few questions as the following. Is the pre-paid card based settlement/payment sustainable in the changing environment of MFIs in India? Are MFIs fading away since some of them have been granted small finance bank (SFB) licenses? The answer is probably a "**NO".** In all eight MFIs have been issued SFB licenses by the RBI. Some MFIs may transit to Small Finance Banks (SFBs) in future. A majority of them will still remain as MFIs of small & medium sizes with lesser use of high end technology. Hence, pre-paid cards may serve better in providing added services like disbursement of loans, collection of repayments including insurance claim payments discussed in this study. To quote Mr Satyen Dash, Sr Regional Manager, Business Procurement & Financial Inclusion, Bajaj Allianz Life Insurance Co Ltd. *"Technology and innovation - these are the two key game changers. There exist numerous options, within the current regulatory framework, to work out methods of enhancing customer experience. With the amount of premium being written by insurers in this segment, it has become increasingly important for us do devise ways and means to not only deliver value, but do so in a timely manner (or perhaps before that). This process goes a long way in doing that. It simplifies the entire payment process to a large extent and gets the benefit to the end-user in the easiest possible way. Needless to say, the initial reactions, from both the clients and the aggregators, have been encouraging. This process, although limited in its scope now, has the potential of being scalable and sustainable."* Adding to this says Mr Neeraj Maheshwari, Vice President, Business Procurement & Mass Markets, Bajaj Allianz Life Insurance Co Ltd, *"Micro Insurance has moved beyond being just a tool of social sector* *obligation for insurers. It has evolved into being a full-fledged & profitable business vertical. Considering the criticality of servicing in this segment, I believe the process of death claim settlements through pre-paid cards is going a long way in helping Bajaj Allianz Life create a niche for itself in the market. Technology has the power to not only bring about dramatic reduction in the time taken to service the clients below the poverty line, but also have a positive influence in the way these clients feel about financial services."*

The scope for further research lies in studying the technology acceptance of this pre-paid card technology for disbursement of loans and collection of loan repayment instalments. The regulatory environment seems to be dynamic since banks and payments are regulated by the RBI whereas insurance is regulated by the IRDAI. At times initiation of a particular regulation say by the RBI might prompt an appropriate regulation by the IRDAI or vice versa. Further, one could probe into possible preferences of cards to mobile phones since mobile money has been very successful elsewhere but not in India for the rural poor.

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Appendix

Salient Belief Elicitation: A Brief Review

The motivation for use of such a framework of elicitation comes from the theory of Reasoned Action (TRA) and the theory of Planned Behavior (TPB). The theory of Planned Behaviour (Ajzen, 1985) builds upon the theory of Reasoned Action (Fishbein and Ajzen, 1975) in an attempt to predict and understand behaviour. The Theory of Planned Behavior was created in order to incorporate social, cultural, psychological and economic approaches into behavioural analysis (Burton, 2004). According to Ajzen (1991) behavioural intentions are a function of three components: attitude toward a behaviour, subjective norms (social pressure) and perceived behavioural control (self-confidence). TPB proposes that behaviour is predicted by the strength of an individual's intention to behave the way they do. Attitudes, subjective norms and perceived behavioural control are assumed to be predictable from beliefs of an individual about the behaviour. In order to identify final set of salient beliefs in a study, Ajzen and Fishbein (1980) have suggested three rules: (i) include the ten or twelve most frequently mentioned beliefs, (ii) include those beliefs that exceed a particular frequency; and (iii) choose as many beliefs as necessary to account for a certain percentage of all beliefs mentioned.

Sutton et al. (2003), in their paper presented a detailed analysis of beliefs about "being more physically active in the next 12 months. They followed the work of Ajzen and Driver (1991) and Manstead and Parker (1995). The paper compared the beliefs that were elicited by questions designed to prompt instrumental outcomes (advantages and disadvantages) and affective outcomes (like or enjoy, dislike or hate). The study showed how using different wordings for the open-ended questions in an elicitation study might result in different kinds of beliefs being elicited. Sutton et al (2003) emphasized this part of salient belief elicitation.

Herath (2010), related the three rules mentioned above as suggested by Ajzen and Fishbein (1980) and came up with an alternative approach. The paper analysed the beliefs of farmers in Sri Lanka in respect to the decision to adopt new technology. The research conducted through a questionnaire consisted of six open ended questions. These questions were given to farmers to write down their beliefs towards the adoption of new technology. The first 25 questions were used to develop the coding frame for data entry. A total of 94-respodents was taken from the farmers of Kurunegala district of Sri Lanka by selecting two villages randomly. The findings indicated that the three rules suggested by Ajzen and Fishbein (1980), led to different sets of salient beliefs for TPB analysis. Therefore, an alternative approach was suggested which was a trade-off between salient beliefs that fell into the final set and beliefs that are foregone.

Knowledge Partners in the Study

Company/Institution	Brand
1. Bajaj Allianz Insurance Pvt Ltd	BAJAJ | Allianz Jiyo Befikar
2. M2P Solutions Pvt Ltd (Prepaid Card Provider)	YAP All you need.
3. Utkarsh Micro finance Pvt Ltd --One of the leading 25 MFIs in India (CRISIL 2014) **(Awarded Small Finance Bank Licence in September 2015 by Reserve Bank of India).**	उत्कर्ष Realising Dreams

<table>
<tr><th colspan="11">Table 1: Demographic Profile of Respondents</th></tr>
<tr><th colspan="11">Total no. of respondents 201 (200)</th></tr>
<tr><td rowspan="2">Sample Segregated on the basis of Age</td><td>Below 20</td><td>20-30</td><td colspan="2">30-40</td><td colspan="2">40-50</td><td colspan="2">50-60</td><td colspan="2">Above 60</td></tr>
<tr><td>1</td><td>54</td><td colspan="2">90</td><td colspan="2">42</td><td colspan="2">9</td><td colspan="2">4</td></tr>
<tr><td rowspan="2">Gender</td><td colspan="4">Male</td><td colspan="6">Female</td></tr>
<tr><td colspan="4">9%</td><td colspan="6">91%</td></tr>
<tr><td rowspan="2">Annual Family Income</td><td>Less than 22,000</td><td>23,000-50,000</td><td colspan="4">51,000-75,000</td><td colspan="4">More than 75,000</td></tr>
<tr><td>34</td><td>70</td><td colspan="4">55</td><td colspan="4">42</td></tr>
<tr><td rowspan="2">Education</td><td>Illiterate</td><td>Primary</td><td colspan="2">Middle</td><td colspan="2">Intermediate</td><td colspan="2">Graduation</td><td colspan="2">Post-graduation</td></tr>
<tr><td>17</td><td>126</td><td colspan="2">46</td><td colspan="2">8</td><td colspan="2">4</td><td colspan="2">0</td></tr>
<tr><td rowspan="2">Year of Using Micro Insurance</td><td>2007</td><td>2008</td><td>2009</td><td>2010</td><td>2011</td><td>2012</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td></tr>
<tr><td>10</td><td>2</td><td>7</td><td>21</td><td>16</td><td>11</td><td>35</td><td>56</td><td>24</td><td>18</td></tr>
<tr><td rowspan="2">Number of Premiums Paid</td><td>One</td><td>Two</td><td colspan="4">Three</td><td colspan="4">Four</td></tr>
<tr><td>122</td><td>50</td><td colspan="4">22</td><td colspan="4">7</td></tr>
<tr><td rowspan="3">Claims Made</td><td colspan="2">Male</td><td colspan="4">Female</td><td colspan="4">Total</td></tr>
<tr><td>Yes</td><td>No</td><td colspan="2">Yes</td><td colspan="2">No</td><td colspan="2">Yes</td><td colspan="2">No</td></tr>
<tr><td>1</td><td>18</td><td colspan="2">7</td><td colspan="2">175</td><td colspan="2">8</td><td colspan="2">193</td></tr>
</table>

Table 2: Final Factor Structure

Factor	Item	Loading	Variance Explained (%)
Societal Image	Possessing this card would improve my image in my community.	0.877	27.259
	Possessing this card/this type of card would be prestigious in my community.	0.884	
	Friends who get this card issued by MFI would have high profile in my village.	0.855	
Financial Risk Protection	I would use this card to improve my financial security.	0.838	13.536
	For my financial risk protection(claim settlement), use of this card would be important	0.828	
	For my financial risk protection(claim	0.636	

	settlement), use of this card would be relevant		
Perceived Ease of Use	I would be able to use this card even if I have never used similar card in the ATM machine.	0.947	8.571
	I would be able to use this card even if nobody is there to help me or tell me what to do.	0.910	
Access	Getting to the card location would be difficult*	0.877	6.937
	I would not know where to get this card*.	0.847	

Figure 1: New Business Premium under Micro insurance

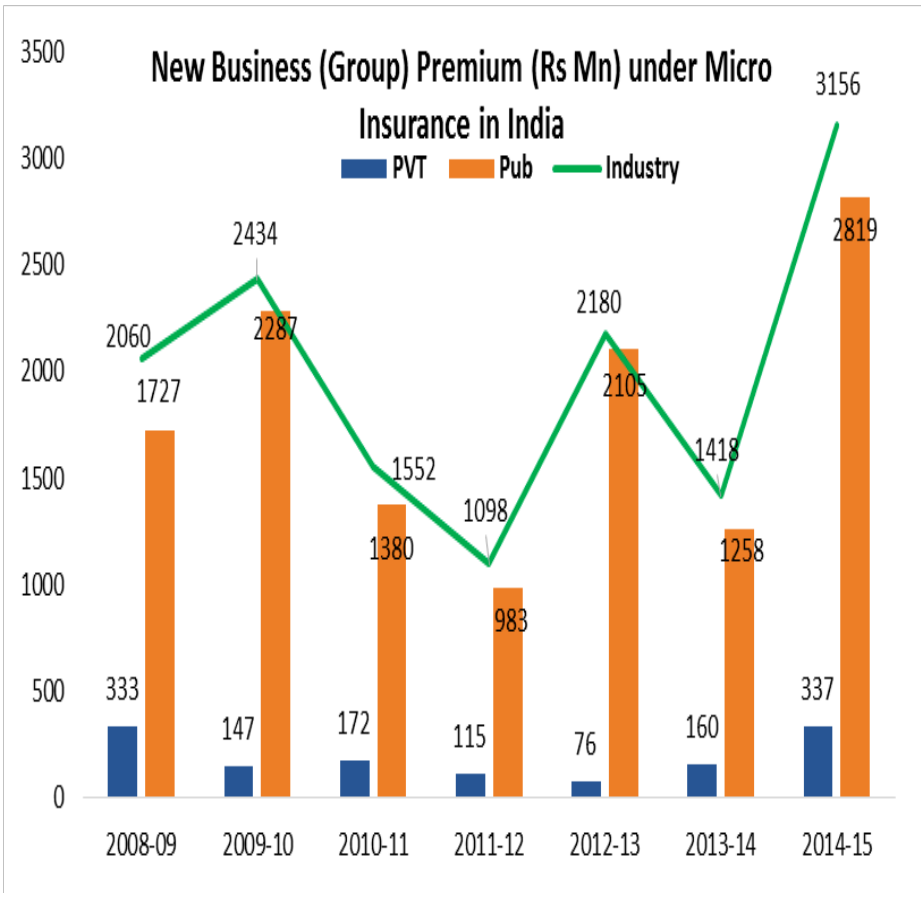


Figure 2: Number of Life's (mn) covered under Micro insurance

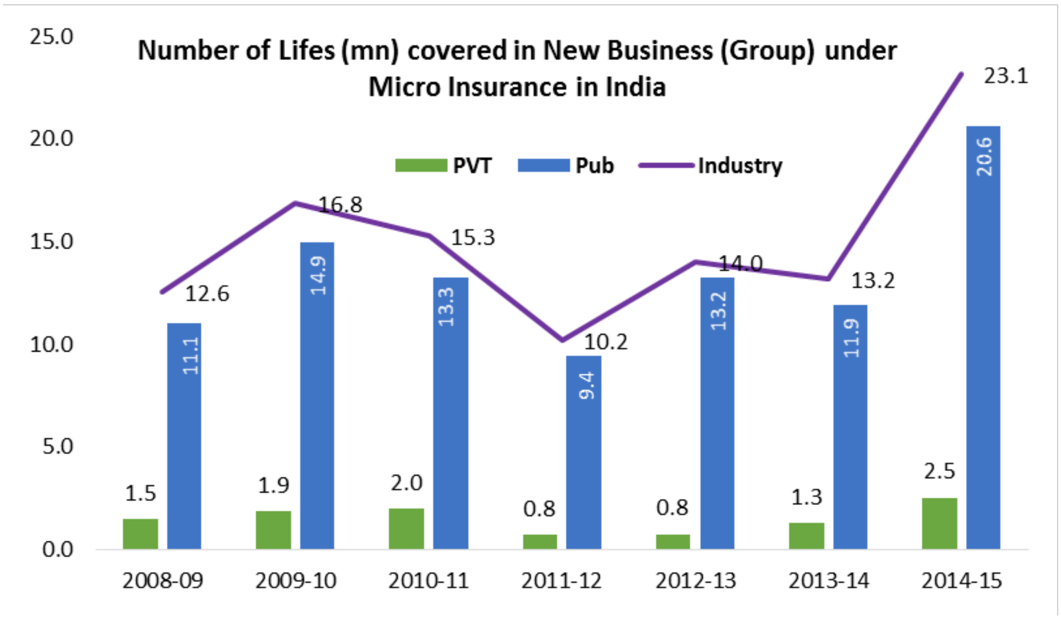


Figure 3: The Innovation of Pre-paid Card based claim settlement

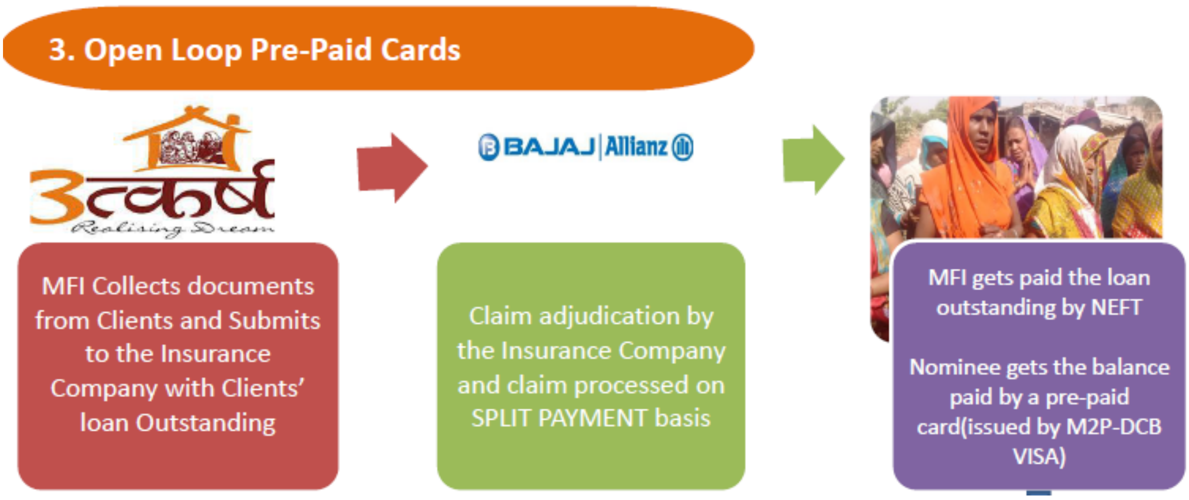
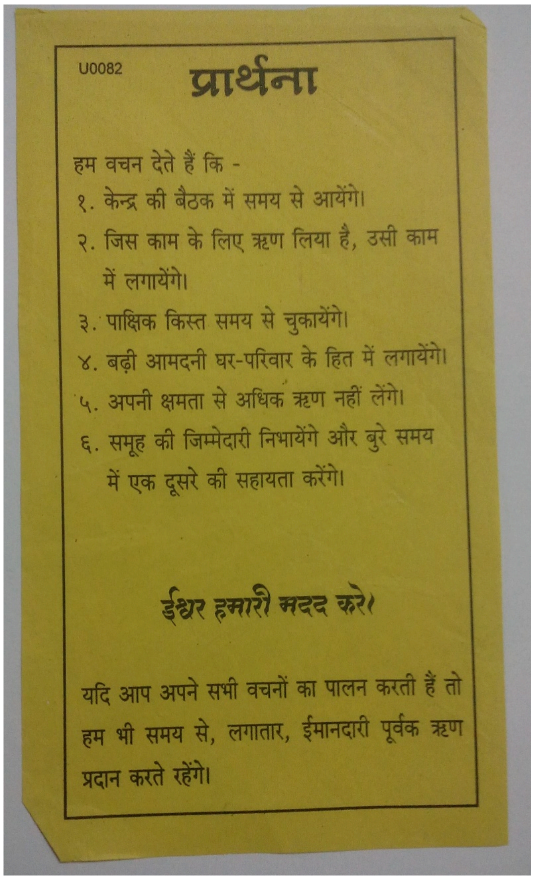


Figure 4: The Pledge/Prayer: A Literacy Move by Utkarsh



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प्रार्थना

हम वचन देते हैं कि -

१. केन्द्र की बैठक में समय से आयेंगे।

२. जिस काम के लिए ऋण लिया है, उसी काम में लगायेंगे।

३. पाक्षिक किस्त समय से चुकायेंगे।

४. बढ़ी आमदनी घर-परिवार के हित में लगायेंगे।

५. अपनी क्षमता से अधिक ऋण नहीं लेंगे।

६. समूह की जिम्मेदारी निभायेंगे और बुरे समय में एक दूसरे की सहायता करेंगे।

ईश्वर हमारी मदद करे।

यदि आप अपने सभी वचनों का पालन करती हैं तो हम भी समय से, लगातार, ईमानदारी पूर्वक ऋण प्रदान करते रहेंगे।