


Seeking Growth The **ESG** Way





FINANCIAL INCLUSION

Shifting from 'Exclusive' to 'Inclusive'

- ▲ India fighting huge income and wealth divides
 - ▲ Financial inclusion a great tool to tackle social and governance issues
 - ▲ Laudable government initiatives such as opening basic bank accounts (300 million-plus) and access to credit
 - ▲ Digital banking, e-wallets transaction value growing 50% annually
 - ▲ MFIs, fintech companies benefit from bottom-of-the-pyramid opportunity
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Shifting from 'Exclusive' to 'Inclusive'

India has a very large share of population that makes up the bottom of its economic pyramid, and its economic disparities are large as well as widening. The country ranks poorly on this count among larger and comparable nations. In 2017, 73% of the wealth generated went to the richest 1% while the wealth of 670 million Indians that comprise the poorest half of the population increased a meagre 1%. The incumbent government, which came into power in 2014, identified financial inclusion as one of the key tools to solve this problem of poverty.

In our view, the outcome of financial inclusion will not just resolve social issues, but eventually turn out to be a big catalyst for improving governance as well. Financial inclusion is bringing the bottom layer of the population into the formalised economy as well, and this is aiding governance significantly. In addition, migration from a predominantly cash-based economy to a digitalised one with online and mobile banking transactions gaining popularity is also boosting governance. This, in our view, makes financial inclusion a large socioeconomic-governance opportunity and, hence, an ideal ESG investment candidate.

Introduction of the Pradhan Mantri Jan Dhan Yojana, which focuses on opening bank accounts, remittances, need-based credit, etc has made remarkable progress with 333 million new bank accounts opened so far. The advent of digitalisation and technology in financial services has almost created a revolutionary ecosystem in India during the past five years. The biggest area of transformation has been payments (via mobile wallets), which have skyrocketed in the past three years. The fact that 370 million mobile users exist in India has been a key lever.

The divide between rich and poor, levers such as fintech, and the government's push to narrow the rich-poor gap are all ingredients of a great business opportunity. We see a variety of plays here. While public sector banks have been at the forefront driving financial inclusion, the latest push is coming from private sector banks, microfinance lenders, finance companies, financial services businesses and asset managers—all pushing the boundaries of the opportunity. While this might have been viewed as the bottom-of-the-pyramid need, it's already centre stage of traditional and new-age businesses, with market and economics as the mantra, and very high quality of growth as the byproduct.