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The Domino Effect of Electronic Benefits Transfers to Children

By Parul Agarwal and Amulya Krishna Champatiray

The project titled "Exploring the nature, scope and feasibility of existing technological infrastructure of India's National e-Governance Plan's (NeGP) Customer Service Centre scheme towards converting in-cash transactions into cashless transactions" aimed at studying the systems and processes employed by NeGP to deliver financial services to the last mile. In the process, we observed that children handle virtual money or electronic transactions in a very sophisticated fashion. This led us to think of ways this behavior could have longer-term implications on a household's financial behavior.

Cash transfer programs, in various forms, have been implemented globally as a poverty reduction measure. Both conditional and unconditional cash transfers have been tested and proved to have their own pros and cons. Mechanisms have also been tried where these transfers are made through women in the family to ensure that the money is not squandered and is used for the welfare of the respective household. In 2013, the Indian government implemented a direct cash transfer scheme whereby money is directly transferred to beneficiaries' bank accounts. All government subsidies, pension payments, scholarships, employment guarantee scheme payments, and other welfare payments are routed through this channel, called Electronic Benefits Transfers (EBT). In a typical poor household, the beneficiaries of these EBTs could be a school-going child for his scholarship, an elderly person for his or her pension, and a head of the household for subsidies. All three receive bank accounts where they get their transfers. We studied these three kinds of beneficiaries and the factors that influence their financial behavior. How they utilize their respective transfers and bank accounts (i.e. their financial behavior), depends on their financial awareness, preferences, and experience with financial products.



First, the elderly have very strong beliefs in their experience and often have a hard time changing their perceptions. It is difficult to make them believe in technology and they are more likely to use transfers to contribute to household expense.

Second, heads of household are more likely to adapt to the financial environment but given that they are burdened with a high dependence ratio in the family, they don't experiment with money or invest in risky ventures. Trust in an available financial service becomes a very important factor that motivates them to save or make a financial investment with the EBT service. Their preferences change frequently as they do for any

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poor household because they are prone to high uncertainty and risk with employment and steady cash flow. Heads of household consider the transfers as additional income and try to use it for consumption smoothening; the bank accounts opened for the purpose of receiving welfare payments essentially remain dormant.

Third, schoolchildren's financial behavior is at a completely different level as they are curious and often have a steep learning curve, have no obligations towards family, are open to new thoughts, ideas and innovations, and are fascinated by technology. School children are socially active and are influenced by people around them, such as friends and teachers at school. They are at a stage where independence excites them and they look forward to growing up as an adult.

The project required us to visit some of the kiosks or centres that provided technology facilitating cashless transactions and banking services. During our visits and through our discussions with various stakeholders we observed that the majority of foot traffic at these centres is from school children. Long queues of school children dressed in uniforms was a common sight across the thirty centres that were studied. Upon further investigation, we found that this segment of customers came in to access their bank accounts in which they receive their scholarships for education, uniforms and books. To our surprise, these children were sophisticated enough to not withdraw the entire amount in one go and use it as a channel to save by making small deposits and withdrawing small sums. This is in complete contrast to the behavior exhibited by adults. It is more of a fun activity for these children and they feel ownership of their bank accounts. EBTs and accessibility to a kiosk like terminal indicates a positive externality of this technology that is providing a practical exposure to money management at a very early age. Given that these children go to school where they are educated on numeracy and other money and currency related aspects, they are more likely to understand the principles of saving, borrowing, cash handling, investments, etc. using such platforms that provide real time experience.



It has been globally realized that the major barrier towards financial inclusion is lack of financial literacy[1]. Though the financial landscape for the poor is being increasingly diversified and customized, it is too complex for many of them to understand and make use of the varied financial services. Educating heads of poor households at this age has proved to be difficult especially on subjects such as insurance and pensions. Enabling households to weigh their debt and saving options also becomes difficult in most rural settings. Here experts suggest using innovative methods of financial literacy and advocate the importance of reaching out to people with relevant concepts at the time when they need them the most or have an ability to understand them the most. For instance, when children are 13-17 years of age and go to school, they can be taught about simple money management tools and techniques. EBT and kiosk banking is making this happen unintentionally. Additionally, when children visit kiosks to do transactions they are also exposed to a lot of information about other financial products. This entire package of EBT, financial education at school, and practical exposure and financial awareness at kiosks might eventually make these children more financially independent when they grow up. They are more likely to be confident about their money related decisions as compared to their parents. These outcomes, though important, are longer term in nature and difficult to measure scientifically.

The other outcome of this package that has immediate and larger implications for financial inclusion is the domino effect to the family's financial behavior. This is how a chain reaction happens or is expected to happen. School-going teenagers are educated on basic numeracy and financial management aspects. They also receive a bank account where they get scholarship money. Because they are minors (i.e. under 18 years of age), the account must be opened with an adult (i.e. one of their parents). Given this opportunity to handle money at an early age, teenagers are exposed to a lot of information about other financial services that they can share with their family and friends. This information trickles down (or up) from child to parent and might make parents more willing to try new products and services. Parents see their child operating their bank account and observe and learn from their savings activities. Women are seen to be using credit or cash in hand for activities like education, consumption smoothing, saving instruments etc. that are beneficial to the household as a whole[2]. Therefore, of the two parents, mothers are more likely to be influenced by the process of information sharing and knowledge transfer and they can then try to educate the rest of the family.

In all, EBT payments made to children influence and change the financial behavior of the entire family. This domino effect is crucial to understand as policymakers and practitioners are making efforts to make people financially aware so that they can utilize the services available in the best possible manner. But a nuanced understanding of the approach is still missing. If this link between the child (a future decision maker) and the parents (current decision makers) is strong and is proven to work then this could be an answer to the 'how' of financial inclusion. Efforts need to be made at educational institutions to make the entire process more formalized and structured. Additionally, the kiosks could also be used as Financial Literacy and Credit Counseling (FLCC) Centres[3] with a more specified role. Apart from these immediate steps, a rigorous research study requires to be done to provide evidence of these effects so that stronger and more generalizable recommendations can be drawn. We are taking steps in this regard by disseminating these ideas to the concerned institutions in India and by furnishing the required proposal for further research.

Read more in Parul Agarwal and Amulya Krishna Champatiray's Final report titled *Kiosk Banking: The Challenges to and Implications of Building an Inclusive Financial Infrastructure*.

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