Banking Services for the Common Man Financial Inclusion

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Abstract

The Banking Industry has shown tremendous growth in volume and complexity during the last few decades. Despite of making significant improvements in all the areas relating to financial viability, profitability, and competitiveness, there are concerns that bank have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. Banking services are essentially for welfare of the public. It is imperative, therefore, that the availability of banking and payment services to the entire populace without discrimination is the avowed objective of public policy. The reasons may of financial exclusion vary from country to country and the strategy to cure may also vary.

The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. RBI focus on banks as the principal vehicle for financial inclusion also stems from the fact that only they can offer the entire suite of products that would facilitate meaningful financial inclusion.

In this paper we try to analyze the efforts and strategies made by the Reserve Bank and the Banking sector in India for financial inclusion in last 10 -15 years. We also analyze that Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

Keywords: *Financial Services, Financial Inclusion, Underprivileged Section.*

Introduction: The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. The reasons may of financial exclusion vary from country to country and hence the strategy could also vary, but all out efforts are being made as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged. So we thought it would be appropriate for us to speak on banking services to the common man financial inclusion, a topic of contemporary significance and relevance.

. In developing economies like ours, the banks act as mobilizes of savings and allocators of credit for production and investment, have a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them. At a minimum, all retail commercial banks also provide remittance facilities and other payment related products. Thus, inherently, the banking sector possesses a tremendous potential to act as an agent of change and ensure redistribution of wealth in the society.

The importance of financial inclusion has been emphatically underlined in the wake of the financial crisis. As we all know, the crisis has had a significant negative impact on lives of individuals globally. Millions of people have lost their livelihoods, their homes and savings. One of the prominent reasons for the crisis was that the financial system was focused on furthering its own interests and lost its linkage to the real sector and with the society at large. The crisis also resulted in a realization that free market forces do not always result in greater efficiency in the financial system, particularly while protecting the interests of the vulnerable sections of society. This is due to the information asymmetry working against these sections, thereby placing them at a severe disadvantage. In wake of the Crisis, therefore, Financial Inclusion has emerged as a policy imperative for inclusive growth in several countries across the globe. However, though much lip service has been paid to Financial Inclusion, the actual progress has remained far from satisfactory. As I always mention, it is regrettable that the entire debate surrounding financial inclusion has generated significant heat and sound, but little light.

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Before we go through our topic financial inclusion it is necessary to understand what is financial exclusion, who are the suffers to it and the basic areas of financial exclusions.

Financial Exclusion: Financial exclusion is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream services providers. Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship.

Financial Exclusion

Types	**Suffers**
1. Transaction accounts	**1. Poor**
2. Time Deposits	**2. Socially under-privileged**
3. Financial Advice	**3. Disabled**
4. Appropriate small credit	**4. Old as well as children**
5. Insurance	**5. Women**
6. Mortgage Loans	**6. Uneducated**
7. Superannuation	**7. Ethnic Minorities**
8. Enterprise based loan	**8. Un-employed**

AREAS OF CONCERN BY BANKS

- The banking industry has shown tremendous growth in volume and complexity during the last few decades.
- Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to reach and bring vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services.
- Internationally also efforts are being made to study the causes of financial exclusion and design strategies to ensure financial inclusion of the poor and disadvantaged.
- The reasons may vary from country to country and so also the strategy but all out efforts are needed as financial inclusion can truly lift the standard of life of the poor and the disadvantaged.

Financial Inclusion: RBI defined Financial Inclusion as the "process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated, mainstream institutional players". We consider Financial Inclusion and Financial Literacy as twin pillars where Financial Inclusion acts on the supply side i.e. for creating access and financial literacy acts from the demand side i.e. creating a demand for the financial products and services.

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the *sine qua non* of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. In nutshell Financial Inclusion is nothing but evasion of financial exclusion through various financial and non financial measures.

International Experience in Promoting Financial Inclusion: The experiences in financial inclusion are unique to each country. An interesting feature which emerges from the international practice is that the more developed the society is, the greater the thrust on empowerment of the common person and low income groups. It may be worthwhile to have a look at the international experience in tackling the problem of financial exclusion so that we can learn from the international experience. Some of the products introduced by the countries to overcome the problem of financial exclusion are:

1. **Basic Banking Account (BBA)** Basic bank no frills accounts have been introduced by British Bankers' Association.
2. **Post Office Card Account (POCA)** (United Kingdom - UK; USA),

The Post Office™ card account is an ultra simple account that can only be used to receive benefit, state pensions and tax credit payments. No other payments, such as Housing Benefit, occupational pensions, or wages can be paid into it. You can only collect payments over the counter at a Post Office™ branch. This account may suit you if you want a simple account that won't let you go overdrawn or incur any charges. A Post Office™ card account will allow you to take cash out, free of charge, at any Post Office™ branch using a plastic card and Personal Identification Number (PIN). Your card and PIN will also allow you to request a balance enquiry at any Post Office™ branch.

3. **MZANSI**

A low cost card-based savings account with easy availability at accessible outlets like merchant points-of-sale, post offices, etc. (South Africa), The **Mzansi Account** is a low income transactional banking account that was developed in line with the commitments of South Africa's Financial Sector Charter. The Financial Sector Charter requires banks to make banking more accessible to the nation and, specifically, to increase banking reach to all communities.

The Mzansi Account is the result of the major South African banks working collectively to provide a standard for new bank accounts, which is affordable, readily available and suits the specific needs of the previously unbanked communities. Each bank has established its own pricing competitively.

The collaboration between the banks has allowed Mzansi account holders to make use of any of the participating banks' ATMs at no additional cost effectively creating a network of over ten thousand ATMs across the country and extending the banking platform to the greater community. This is augmented by point of sale functionality available at retailers.

4. CFLI

The project sought to maximise interest in basic financial literacy among housing association tenants; entitled Community Finance Learning Initiatives (CFLIs), the pilots had four key objectives:

- *Objective A:* to increase awareness of, and access to, free education and training and DfES financial incentives for learning by reaching out to those excluded from mainstream financial services and learning opportunities.
- *Objective B:* to build financial literacy skills through the provision of appropriate training, education and support.
- *Objective C:* to support access to financial services such as basic bank accounts and low cost insurance, for those excluded from mainstream financial services through the provision of advice and signposting services.
- *Objective D:* to provide access to, and support for, finance for the development of micro-enterprises.

5. CRA

A civil rights law, namely Community Reinvestment Act (CRA) in the United States prohibits discrimination by banks against low and moderate income neighborhoods. The CRA imposes an affirmative and continuing obligations on banks to serve the needs for credit and banking services of all the communities in which they are chartered.

6. The Financial Inclusion Task Force in UK has identified three priority areas for the purpose of financial inclusion,

- access to banking
- access to affordable credit
- access to free face-to-face money advice.

Indian Scenario: In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the 'super-included', i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.

Financial Inclusion Plans:

- Board approved 3 Year FIPs- April 2010 to March 2013, Next 3 years FIPs prepared -April 2013-2016
- FIPs of RRBs- Prepared after CBS migration
- Self-set targets 46 Parameters-FIPs to be integrated with Business plan of the banks
- Coverage of unbanked villages, > 2000 & < 2000 through Brick and Mortar branches as well as by deployment of BCs
- Basic Accounts, EBT, KCC, GCC accounts to be opened including through BC-ICT
- Specific products to be designed to cater to the financially excluded segments
- Close Monitoring by Reserve Bank of India- Monthly Reporting- Annual Comprehensive Review
- FIPs Disaggregated - Regional Offices of RBI to review state level FIPs

RBI's Policy on 'Financial Inclusion': When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India places a lot of emphasis on financial inclusion.

With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion.

SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended Mar 13	Progress Apr 10- Mar 13
1	Banking Outlets in Villages - Branches	33378	34811	37471	40837	7459
2	Banking Outlets in Villages BCs	34174	80802	141136	221341	187167
3	Banking Outlets in Villages - Other Modes	142	595	3146	6276	6134
4	Banking Outlets in Villages TOTAL	67694	116208	181753	268454	200760
5	Urban Locations covered through BCs	447	3771	5891	27143	26696
6	BSBD A/c through branches (No. In millions)	60.19	73.13	81.2	100.8	40.61
7	BSBD A/c through branches (Amt. In billions)	44.33	57.89	109.87	164.69	120.36
8	Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.27	31.63	57.3	81.27	68
9	Basic Savings Bank Deposit A/c through BCs (Amt. in billions)	10.69	18.23	10.54	18.22	7.53
10	BSBDA Total (in millions)	73.45	104.76	138.5	182.06	108.61
11	BSBDA Total Amt. (in billions)	55.02	76.12	120.41	182.92	127.9
12	OD facility availed in BSBD A/c (No. In millions)	0.18	0.61	2.71	3.95	3.77
13	OD facility availed in BSBD A/c (Amt. in billions)	0.1	0.26	1.08	1.55	1.45
14	KCCs - (No. in millions)	24.31	27.11	30.24	33.79	9.48
15	KCCs - (Amt In billions)	1240.1	1600.1	2068.4	2623	1382.9
16	GCCs - (No. in millions)	1.39	1.7	2.11	3.63	2.24
17	GCCs - (Amt In billions)	35.11	35.07	41.84	76.34	41.23
18	ICT A/Cs-BC- Transaction -No. in millions	26.52	84.16	155.87	250.46	490.49
19	ICT A/Cs-BC- Transactions -Amt in billions	6.92	58	97.09	233.88	388.97

FIP achievements April 2010- march 2013

- About 2,68,000 banking outlets opened in villages
- About 7400 rural branches opened
- 27143 Urban Location covered through BCs
- 182.06 million Basic Savings Accounts (NFAs),
- out of which BC-ICT based 81.27 million
- OD facility extended in about 3.95 million Accounts
- 33.79 million KCCs and 3.63 million GCC accounts

The Findings: The majority of India's population in the urban, semi-urban and rural areas thus appears to be still under-served by the banking industry, leading to financial exclusion. There are uneven levels of penetration in each population segment, more so at semi-urban and rural segments.

The Bottom of Pyramid (BOP) Financial System is also undergoing tremendous transformation. RRBs are being amalgamated, with consequent organisational, technological and managerial complexities.

The Way Forward: The banks should come out of inhibited feeling that very aggressive competition policy and social inclusion are mutually exclusive. As demonstrated elsewhere, the mass banking with no-frills etc. can become a win-win situation for both. Basically banking services need to be "marketed" to connect with large population segments and these may be justifiable promotional costs. The opportunities are plenty.

- In the context of India becoming one of the largest micro finance markets in the world especially in the growth of women's savings and credit groups (SHGs) and the sustaining success of such institutions which has been demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition.
- The IBA may explore the possibility of a survey about the coverage in respect of financial inclusion keeping in view the geographical spread of the banks and extent of financial services available to the population so as to assess the constraints in extension of financial services to hitherto unbanked sections and for initiating appropriate policy measures.
- It may be useful for banks to consider franchising with other segments of financial sector such as cooperatives, RRBs etc. so as to extend the scope of financial inclusion with minimal intermediation cost.
- Since large sections of low income groups transactions are related to deposits and

withdrawals, with a view to containing transaction costs, 'simple to use' cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular would greatly facilitate financial inclusion of the semi urban and rural populace. In this regard, it is worthwhile to emulate the example of 'e-Choupal' project brought forth through private sector initiative.

Conclusion: However, it is disheartening to note that the number of people with access to the products and services offered by the banking system continues to be very limited even years after introduction of inclusive banking initiatives in the country through measures such as the cooperative movement, nationalization of banks, creation of regional rural banks, etc. As Nobel Laureate Prof. Amartya Sen has also noted, "the thrust of developmental policy in India has undergone a paradigm shift from an exclusive focus on efficiency to one on equity; from the rate and pattern of growth, and on inequalities, distribution of income and wealth to the extent to which people are deprived of the requirements for leading a fulfilling life and suffer 'capability deprivation'. Over the past five years, Reserve Bank of India, as also other policy makers have resolutely pursed the agenda of financial inclusion and achieved discernible progress in improving access to financial services for the masses. However, the progress is far from satisfactory as evidenced by the World Bank Findex Survey (2012). According to the survey findings, only 35% of Indian adults had access to a formal bank account and 8% borrowed formally in the last 12 months. Only 2% of adults used an account to receive money from a family member living in another area and 4% used an account to receive payment from the Government. The miniscule numbers suggest a crying need for a further push to the financial inclusion agenda to ensure that the people at the bottom of the pyramid join the formal financial system, reap benefits and improve their financial well-being.

A great deal has happened in the last ten years to overcome financial exclusion. A framework of policy has emerged from an inclusive process of discussion and debate. Initiatives and experimental services have been launched to put the policies into effect. These have been monitored and evaluated and the results have been used to establish continuing provision and to ensure that previously excluded people are making beneficial use of financial services.

One advantage that the country enjoys in the endeavour towards greater financial inclusion and equity is that as a late entrant into the realm of accelerated economic development, the country can learn much from the mistakes of other nations.

There are several rural and urban development programmes promoted by the Government to eradicate poverty. If banks are also made an effective intermediary, greater financial inclusion could be one of the meritorious outcomes. As some of the projects become successful and self-sustaining, greater financial inclusion would become possible. But the Government would have to do its homework thoroughly to identify projects where intermediation by banks is possible. The benefits will percolate not only to target population, but to banks as well. And then, good economics will prove good politics for the country.

Financial Inclusion has the ability to generate positive externalities: it leads to increase in savings, investment and thereby, spurs the processes of economic growth. It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the savings habit. It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal channels of credit like family, friends and moneylenders. Availability of timely, adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. It will open the doors of formal remittance facilities to the low income and unbanked populace who, presently, are forced to use all kinds of informal and costly ways of sending money from one place to another. As we all know, Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments. Thus, on the whole, Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

The following views were voiced recently on financial inclusion and credit penetration in the banking industry.

There are 93 million mobile users today. The number of mobile phones currently is more than the number of borrowers from the banking system. There is a clear need to increase the outreach and scale up operations at existing outlets

- Ms Usha Thorat, Deputy Governor, RBI at BANKCON.

The ratio between banks deposits/accounts operated and total adult population still remained low, even compared to other developing economies. The Indian national average is just 59 per cent compared to 92 per cent in UK. The mere opening of a bank account is not enough. Banks should offer all financial services to those who open accounts. This would wean Rural India away from unorganised sector that charges high rates of interest.

- Mr V. Leeladhar, Deputy Governor, RBI, at a meeting on May 21

The overall percentage of deposit account penetration of 45 per cent for India is misleading as break-up of figures showed that Urban India has a penetration of 114 per cent while the figure stood at dismal 19 per cent for Rural India. Interestingly, for 2006, 93 per cent of the borrowers in India borrowed less than Rs 2 lakh and their share in terms of total outstanding credit was just 18 per cent.

- Mr Bhaskar Ghose, MD, IndusInd Bank, at an IBA seminar.

India is practically the only country in Asia with a virtual vacuum in the financial system after the large commercial banks.

- Mr Sanjay Sinha, MD, MCRIL, an MFI rating agency, in an article on RRBs.

The above viewpoints certainly spell out the need for a far deeper perspective on the current status of credit penetration and financial inclusion.

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