Taking Banking Services to the Common Man 'Aam Admi' - Inclusive Growth For Tribal Development

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Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the RBI has permitted banks to use the services of NGOs / SHGs, MFIs and other civil society organisations as intermediaries in providing financial and banking services through the use of BF and BC Models vide RBI Circular of 25 January 2006.

banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as the MFIs and NGOs. It may appear in the first instance that taking banking to the sections constituting "the bottom of the pyramid", may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition. Financial inclusion can emerge as commercial profitable business.

Key Words: No-Frill Accounts, Financial Exclusion, Business Correspondents (BCs), Business Facilitators (BFs), Non-Government Organisations (NGOs), Reserve Bank of India (RBI), Committee on Procedures & Performance Audit on Public Services (CPPAPS), Know Your Customer (KYC)

Introduction

'Financial Inclusion'; 'Informal Financial Sector'; Unorganised Sector; are the buzz word today.

Financial Inclusion

"Financial inclusion is delivery of banking services at an affordable cost ('no frills accounts,) to the vast sections of disadvantaged and low income group. 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."

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Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.

A well functioning financial system empowers individuals, facilitates better integration with the economy, actively contributes to development and affords protection against economic shocks. Inclusive finance - through secure savings, appropriately priced credit and insurance products, and payment services - helps vulnerable groups such as low income groups, weaker sections, etc., to increase incomes, acquire capital, manage risk and work their way out of poverty.

Notwithstanding the efforts made so far, a sizeable majority of the population, particularly vulnerable groups, continue to remain excluded from the opportunities and services provided by the financial sector. With a view to correct this situation and extend the reach of the financial sector to such groups by minimising the barriers to access as encountered by them, the Government of India in June 2006 constituted a "Committee on Financial Inclusion" under Chairmanship of Dr C Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

Statement of the Problem

There is a huge problem for the country and a matter of deep concern to address the issue on financial inclusion seriously and bring about the entire population into the banking net for the prosperity of the individual, in particular and the growth of the country at large, in general.

Need for the Study

The profile of Indian banking has undergone a metamorphosis in the post-nationalisation era. Banks have emerged as effective catalytic agents of socio-economic change. With this in view, there is a dire need to carry out the Study as Reserve Bank of India as also Government of India has concerns to include the entire population of the country in the banking net, so that they are freed from the clutches of money lenders who lend money at exorbitant rate of interest. As per the broader definition of financial inclusion, it would take care of issues not only, related to savings and credit, but also insurance and financial advisory services.

Importance of the Study

There is a need for the formal financial system to look at increasing financial literacy and financial counseling to focus on financial inclusion and distress amongst farmers. As part of the Community Reinvestment Act in US, banks are expected to contribute towards educating persons from socially and financially disadvantaged groups on matters relating to their financial needs. Indian banks and financial market players should actively look at promoting such programs as part of their corporate social responsibility.

Objectives of the Study

The objectives of the study would facilitate Financial Inclusion Initiatives undertaken by Reserve Bank of India/NABARD/GoI, etc.

Methodology

To study the reasons of rural villagers not being in bank net as also to understand hardships/shortages faced by the villagers/SHGs to open bank account (No-frill account/General Purpose Credit Cards); remittance needs of the poor; risk faced by poor and to study environment and infrastructure facilities available and required; technology applications and suggest various schemes to be adopted on the BC/BF Model in the select Village for 100% financial inclusion.

The study will also be supported by international experiences - key learning areas in financial inclusion and bring out commonalities observed in the various approaches applicable in the Indian context. Last but not the least, the study will surface challenges faced in Financial Literacy and Credit Counselling.

The study will also carry learning from success stories of various banks in the areas of financial inclusion.

Review of Literature

Primary Data Collection

Primary data collection will be through Questionnaire face-to-face meeting in order to study the intricacies/ issues of financial inclusion in the select Village and from the findings of the data collected - analyse the same and suggest BCs/BFs Model for implementation by banks.

Secondary Data Collection

1) FULL Report of the Committee on Financial Inclusion - NABARD - January 2008 - to study the recommendations on BFs/BCs Model and come out with suggestions for implementation, which will be the base of the study
2) RBI Report on Trends & Progress in Banking in India
3) RBI Guidelines on Financial Inclusion
4) National Rural Financial Inclusion Plan
5) Role of Commercial Banks in Financial Inclusion
6) Study material published by Indian Institute of Banking & Finance on Financial Inclusion
7) Speeches of Governors/Dy.Governors/Experts on Financial Inclusion
8) Visit to NABARD/RBI/IBA to study the vision on financial inclusion
9) Visit to SADHAN, Delhi/SEWA Bank, Ahmedabad to learn and study the new concepts on financial inclusion from them to be incorporated in the study.

Limitations of the Study

The study has the following limitations :

1) The study will cover nearby village at Mumbai only
2) The result of the study mainly depends upon the information given by the respondents. Since the attitudes and character of the respondents are subject to frequent changes, the results of the study will be based on the present conditions only.

To quote

"The country has moved on to a higher growth trajectory. To sustain and accelerate the growth momentum, we have to ensure increased participation of the economically weak segments of population in the process of economic growth. Financial inclusion of hitherto excluded segments of population is a critical part of this process of inclusion. We hope that the recommendations made in this Report, if implemented, will accelerate the process of financial inclusion" Dr.C.Rangarajan, Chairman.

o **'No-Frills' Account :**

- In the Mid Term Review of the Policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such 'no frills' account, so as to ensure greater financial inclusion.

- **'Simplification of 'Know Your Customer (KYC)' Norms :**
  - Banks are required to provide a choice of a 'no frills account' where the minimum balance is nil or very small but having restrictions on number of withdrawals, etc., to facilitate common man's access to bank accounts.
  - Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the 'KYC' procedure for opening accounts for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts. In such cases banks can take introduction from an account holder on whom full KYC procedure has been completed and has had satisfactory transactions with the bank for at least six months. Photograph of the customer who proposes to open the account and his address need to be certified by the introducer.

- **Ensuring reasonableness of bank charges :**
  - As the Reserve Bank has been receiving several representations from public about unreasonable service charges being levied by banks, the existing institutional mechanism in this regard is not adequate. Accordingly, and in order to ensure fair practices in banking services, the RBI has issued instructions to banks making it obligatory for them to display and continue to keep updated, in their offices/ branches as also in their website, the details of various services charges in a format prescribed by it. The Reserve Bank has also decided to place details relating to service charges of individual banks for the most common services in its website.

- **Committee on Procedures & Performance Audit on Public Services (CPPAPS) :**
  - The monetary and credit policy for the year 2003-04, the RBI has brought into sharp focus the inadequacy in banking services available to common person and the need to benchmark the current level of service, review the progress periodically, enhance the timeliness and quality, rationalize the processes taking into account technological developments, and suggest appropriate incentives to facilitate change on an ongoing basis. Accordingly, the CPPAPS under the able and sagely Chairmanship of Shri S.S.Tarapore was set up. The Committee was both clinical and critical in its observations and made a number of recommendations covering an individual customer's dealing with the bank.

Customer service - institutional machinery :

In the area of customer service, the institutional machinery in banks should comprise -

- At the Board level, RBI has asked the bank to constitute a Customer Services Committee of the Board including as invitees experts and representatives of customers to enable the bank to formulate policies and assess the compliance thereof internally.
- RBI has asked banks to convert the Ad-Hoc Committee of Executives on customer service headed by the CMD/ED into a Standing Committee

that periodically reviews the policies and procedures and working of the bank's own grievance redressal machinery. These committees have been found to be very useful as the top management team is singularly focused on matters relating to customer services at the meetings of these committees and decisions for improving services tend to get taken instantly, cutting across different departments.

- Each bank is expected to have a nodal department/ official for customer service in the HO and each controlling office, whom customers with grievances can approach in the first instance and with whom the Banking Ombudsman and RBI can liaise. More interaction between the RBI/BO and the nodal officers will enable banks to take necessary correctives at the local level.

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 include 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 designing strategies to ensure financial inclusion of the poor and disadvantaged.
- The reasons may 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.

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 of the year 2005-2006, 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.

Consequences of Financial Exclusion :

Consequences of financial exclusion will vary depending on the nature and extent of services denied. It may lead to increased travel requirements, higher incidence of crime, general decline in investment, difficulties in gaining access to credit or getting credit from informal sources at exorbitant rates, and increased unemployment, etc. The small business may suffer due to loss of access to middle class and higher-income consumers, higher cash handling costs, delays in remittances of money. According to certain researches, financial exclusion can lead to social exclusion.

Research study

The research looks into in details BCs/BFs Recommendations as per the Report of the Committee and such recommendations by the Committee can be evaluated/implemented through BCs/BFs Model thereat on the technology front and suggesting implementation strategy for replicating the same at respective bank levels

RBI has permitted banks to use the services of NGOs / SHGs, MFIs and other civil society organisations as intermediaries in providing financial and banking services through the use of BF and BC Models.

The response of the banking system has been of low key and the model is yet to be fully grounded.

Business Facilitators / Business Correspondents (BF/BC)

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the RBI has permitted banks to use the services of NGOs / SHGs, MFIs and other civil society organisations as intermediaries in providing financial and banking services through the use of BF and BC Models vide RBI Circular of 25 January 2006.

Business Facilitator Model

Under the BF Model, banks may use intermediaries such as NGOs, farmers' clubs, cooperatives, community based organisations, IT-enabled rural outlets of corporate entities, post offices, insurance agents, well functioning Panchayats, village knowledge centres, agri-clinics / agri-business centres, Krishi Vigyan Kendras and KVIC / KVIB units for providing facilitation services. It has been clarified that such services may include :

- Identification of borrowers and fitment of activities,
- Collection and preliminary processing of loan applications,
- Creation of awareness about savings and other products, education and advise on managing money and debt counseling,
- Processing and submission of application to banks,
- Promotion and nurturing of SHGs / JLGs,
- Post sanction monitoring,
- Monitoring and hand holding of SHGs / JLGs / credit groups / others, and
- Follow-up for recovery.

Business Correspondent Model

Under the BC Model, NGOs / MFIs set up under the Societies / Trust Act, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, Section 25 Companies, Registered NBFCs not accepting public deposits and post offices may act as BCs. Banks have been advised to conduct due diligence on such entities and ensure that they are well established, enjoy good reputation and have the confidence of local people.

In addition to the activities listed under the BF Model, the scope and activities to be undertaken by BCs will include -

- Disbursal of small value credit,
- Recovery of principal / collection of interest,
- Collection of small value deposits,
- Sale of micro-insurance / mutual fund products / pension products / other third party products, and Receipt and delivery of small value remittances / other payment instruments.

The activities to be undertaken by the BCs would be within the normal course of the banks' business, but conducted through the entities indicated above at places other than the banks' premises.

To study analyses the following Recommendations in respect of the BF/BC Model made:

Business Facilitators (BFs)

Originally, only individuals who were insurance agents could act as BFs while no individuals could be placed as BC. This was later on widened to include retired officials, viz., Government servants like postmasters, school teachers and headmasters, who were considered by RBI as eligible to act as BF. Banks may make use of this relaxation and use individuals as indicated above as BF.

Banks may appoint ex-servicemen/ retired bank staff as their BFs.

Banks should ensure that the banking awareness created by BFs get converted to business potential by providing suitable banking services like mobile outlets.

Banks may facilitate easy roll-out of this mobile banking model through simplification and rationalization of back-end processes and front-end procedures so that banking operations are made more customer-friendly.

Business Correspondents (BCs)

In addition to the institutions presently allowed by RBI to function as BCs, individuals like locally settled retired Government servants like postmasters, school teachers, ex-servicemen and ex-bank staff, whose relationship with the banking system through a pension account has already been established, may be permitted to act as BCs.

Further, MF-NBFCs may be allowed to act as limited BCs of banks for only providing savings and remittance services.

Technology has to be an integral part in sustaining outreach efforts thru' the BC model. Ultimately, banks should endeavour to have a BC touch point in each of the six lakh villages in the country.

In order to sustain and encourage the arrangements, banks may formulate suitable incentive mechanism for BCs linked to the number of accounts opened/ transactions put through by them. Further, banks may consider placing BCs even in areas having their own branches.

To begin with, the BC model envisaged by RBI could be implemented widely. In due course, when the BCs reach a higher level of turnover, they should bear commensurate financial responsibilities.

Banks may appoint any individual/institution of their choice as BCs, after exercising due diligence. This will facilitate greater acceptance of the BC Model by banks.

Funds may be provided to specialized institutions which provide capacity building inputs to BCs. Such funding support could be extended on priority basis to most excluded areas/ sectors of the society.

SLBC convener banks may initiate discussion with their respective State Governments regarding routing government payments through BCs using the smart card or other relevant technology on a pilot basis.

SLBCs may undertake a study to identify organisations having the capacity to serve as customer service points and BC. In States like Andhra Pradesh and Kerala, the VOs and Kudumbashree structures already exist and these can be used as customer service points.

Training modules for BFs/BCs may be prepared in vernacular and in culture sensitive pictorial forms.

Technology Applications Model

Technology - The Driving Force for Low-cost Inclusion Initiatives

To study Multi-application Smart Card Features (Financial Innovations and Network Operations (FINO) Ltd.) and IT-enabled Financial Inclusion Model (ALW)

The study features of each of the illustrative models as under

Pigmy Collection Terminal Model (Krishna Bhima Samruddi Local Area Bank)

Simputers Model(Krishna Bhima Samruddi Local Area Bank)

Field Hand Held Device Model (FINO Ltd.)

Model Using Mobile Technology (A Little World Pvt. Ltd.- ALW)

The recent developments in banking technology and expansion of telecommunication network in the hinterlands of the country have provided the perfect launch pad for extending banking outposts to remote locations without having to open bank branches in the area. The Committee feels that this could be achieved by leveraging technology to open up channels beyond branch network and create the required banking footprints to reach the unbanked so as to extend banking services similar to those dispensed from branches. In short, technology has to enable the branch to go where the customer is present, instead of the other way around.

Further, RBI has urged the banks to scale up efforts for IT-based financial inclusion and develop technologies that are highly secure, amenable to audit and follow widely accepted open standards to allow inter operability among the different systems adopted by different banks. The enabling provisions and support of RBI has facilitated successful pilot projects in use of IT for extending the banking outreach for the "excluded". These projects are premised on technology which uses hand-held devices and connectivity with host computers through General Packet Radio Service (GPRS) / Global System for Mobile Communications (GSM) / Code Division Multiple Access (CDMA) / landline networks. The devices also come in several forms like Simputers (Simple Inexpensive Multi-lingual Computers) / personal digital assistants, programmed mobiles, etc. There are also rural bio-metric ATMs which have been introduced by banks and found to be very popular among rural masses. Some major banks are introducing low cost rural ATMs for cash dispensing and other services in rural areas.

The Committee took cognisance of the fact that the RBI has set up an advisory group for IT-enabled financial inclusion to facilitate development of IT solutions for delivery of banking services. It is understood that the group will advise certain minimum parameters and standards that are essential for setting up robust interoperable systems on open platforms. The Committee, while concurring with this approach, is of the view that nearly all models converge on certain essential components and processes to be followed in a technology application. The essence of all the models under consideration features the issue of a smart card to the farmer on which all his transactions are recorded, a hand-held terminal with the BC at the village level and a Central Processor Unit (CPU) linking the smart cards and BC terminals with the banks. The precautions taken ensure that every transaction made is accompanied by a print-out being provided to the farmer. There are also other models where smart cards are dispensed with and mobile telephones, etc. are used.

However, for better clarity, the Committee has thought it appropriate to delineate the fundamental outlines of a technology-based model which may be examined for application in such manner and to such extent as may be deemed fit.

The Committee also perused two initiatives - the SBI Tiny Initiative on Banking Facility through use of smart card facility and Government of Andhra Pradesh (GoAP) Project on Social Security Payments thru' Smart Cards - to draw conclusions that can be helpful in devising the strategy for achieving 100% financial inclusion in the country.

The operating costs of the various models are expected to be minimal and can be easily absorbed by banks as the increase in business volumes will justify the absorption of incremental operating costs. Also, the costs of the models are substantially lowered if the infrastructure is shared. It is, therefore, recommended that a shared infrastructure of different banks enabling nationwide financial inclusion for the participant banks would confer large scale benefits and also enable effortless transfer of funds between the card holders of the various banks.

Essentially, the start up costs are the initial investment costs comprising cost of the smart card, terminals to the BC and the CPU. The Committee is of the view that the Financial Inclusion Technology Fund can provide the necessary support for defraying technology application and hardware costs of technology adoption.

As the technological capability for achieving outreach has been satisfactorily proved in the ongoing projects at Andhra Pradesh, Karnataka, Mizoram, etc., banks are urged to scale up the projects all over the country to achieve financial inclusion.

Optimisation of Existing Infrastructure

The Committee is of the opinion that the existing banking infra-structure and NGOs which have already developed extensive inroads into rural areas should be made optimal use of for enabling outreach of banking services. The BF/BC models backed by technology applications should encourage a role for the small players and integrate them into the national system. The Committee is of the opinion that State Governments should make payments to NREGP and Social Security Payments through such technology-based solutions.

Building Database

The Committee having discussed extensively the issue of using technology as a driver is of the opinion that the requirement of rapid financial inclusion as a national goal can only be achieved by using appropriate IT. The creation of a national database, sectoral, geographic and demographic reports, and also a payment system among the card holders to benefit the under privileged unbanked population of the country is not possible without extensive use of IT. This alone can bring down the costs of the small ticket transactions of the financially included and make nationwide financial inclusion a reality.

The technology suppliers and banks should evolve common minimum standards for ensuring inter-operability between their systems.

Capacity building of BFs/BCs

Funding support, on priority basis, to be extended to specialized institutions which provide capacity building inputs to BFs/BCs. To study the strong federations supported to act as BFs and BCs to the banks. Such federations can also engage in financial intermediation, micro-insurance, etc. and they can be supported for intensive capacity building for the purpose.

Conclusion

- It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit.
- The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions and local communities. Banks should give wide publicity to the facility of no frills account.
- To sum up, banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as the MFIs and NGOs. It may appear in the first instance that taking banking to the sections constituting "the bottom of the pyramid", may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition. Financial inclusion can emerge as commercial profitable business. Only the banks should be prepared to think outside the box!

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