Impact of Microfinance in Financial Inclusion
on
Knowledge Paper

MAKE in INDIA

Series-1

Microfinance
A Game Changer for
Financial Inclusion

4th May 2016

A Research Initiative of MVIRDC World Trade Centre Mumbai

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Editorial Team

Mr. Y. R. Warerkar
Executive Director
MVIRDC WTC Mumbai

Ms. Rupa Naik
Director-Projects, WTC Mumbai &
Executive Director-AIAI

Dr. Yadnya Pitale
Joint Director -Research and Knowledge Management
MVIRDC WTC Mumbai

Nilesh Gosai
Creative Designer

Preface

Entrepreneurship development is a key to India's growth. However entrepreneurship is not preferably opted by financially weak Indian youth due to financial restraints. There is no dearth of skill in India and a pinch of aid in the form of microfinance has created wonders and uplifted many financially excluded lives. Microfinance can be a game changer in event of accomplishment of financial inclusion of masses through various schemes of NABARD, SIDBI and others who play a vital role in upliftment and development of these beneficiaries. Financial inclusion per say has been talked in context to rural and urban context. There have been success stories of clusters coming together to form SHG-Bank Linkage programs and operating collective businesses on profit sharing basis thus earning a livelihood. Studies show most of these groups consist of members who are semi literate and practically owning no assets of their own. The efficiency of such groups is reflected by the number of microfinance agency who has grown in this sector and providing microfinance to such SHG based businesses. Microfinance thus plays an important role in promoting entrepreneurship in the scenario of completely achieved financial inclusion. We hope this publication will be very useful to the readers in understanding various aspects of microfinance and financial inclusion. I thank Ms Rupa Naik and Dr Yadnya Pitale for their valuable contribution.

Y. R. Warerkar
Executive Director
World Trade Centre Mumbai

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Executive Summary

"Economic success without accountability and social inclusion is not sustainable, and new governments often must face tough choices in order to protect the poor and vulnerable."
- Sri Mulyani Indrawati

The Indian banking industry has played a major role in covering the rural areas and bringing them under banking jurisprudence. However though 38% of banks have branches in rural India only a mere 40% of the country's population has bank accounts. The number of bank branches has risen from 8,700, at the time of bank nationalization in 1969, to around 85,300 + presently. However, only 32,000 of these are in rural area, the average population per bank branch being 13,900.

It is observed that half of the working-age adults globally have no access to formal financial services. They typically live and work in the informal economy due to their mere vulnerability. To create income-generating opportunities for themselves, manage risks, and smoothen expenditures they have to rely on the age-old informal mechanisms such as borrowing from families and friends or the money lender, saving under-the-mattress or through rotating savings clubs, accumulating capital in vulnerable livestock, using informal money transfer services etc. These informal mechanisms are very expensive and unreliable and have led to ever burdening debt.

Global and national policymakers have recognized the importance of economic and social progress and thus have made it a priority to advance financial inclusion so that people can access and use the appropriate financial services that help them improve their lives.

In this knowledge paper a kaleidoscope of financial inclusion schemes promoted by Reserve Bank of India have been showcased for awareness purpose. A critical approach has been sought while discussing these schemes regarding their specific attributes. This knowledge paper discusses the various aspects of reach of financial inclusion in the Indian sub continent relying on external reports. While working on this paper it has been observed that financial inclusion accompanied by microfinance has not only helped uplift the poor entrepreneurs but has changed their approach to life. Certain SHGs of micro entrepreneurs have displayed exemplary qualities of sincerity , determination and steadfastedness towards their businesses and displayed healthy business connect with microfinance agencies. The knowledge paper also discusses the efficiency of business correspondent model for savings and credit products and has shown the success of credit linked BC model over the savings one. The chief conclusions and recommendations of this knowledge paper are, financial inclusion in India could prove to be a game changer in transforming it into a global player, an inclusive growth can act as a source of empowerment only when people are allowed to participate more effectively in the economic and social process,however in order to reach global aspirations, banks have to meet the bridge of local aspirations.

Access to financial inclusion will not only result in increasing employment and business opportunities but also attract global market players to our country.

Overview

Financial inclusion per say means reaching financial services to each individual of the country's economy and currently its catching due attention in India. It is a global experience that the banking system has played a very critical role in reaching financial services to all residents of an economy. However, it is observed that in India only 60% of the economy is the beneficiary. The 40% of the population which has been unable to benefit the financial services is the rural and tribal population of India which remains un-accessed by the banking infrastructure. Hence when we talk about financial inclusion in India, we refer to this population type. However, it is also found that majority of urban population which either lives below BPL or is having earnings just to meet their basic living requirements is also facing deficiency of receiving financial services. These facts are well supported by the definition of financial inclusion which means inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable.

The financial services that we are mentioning in this context mainly are provision of no frills accounts and easy credit to the under privileged through specially designed credit cards. Till recently in India financial inclusion was seen in context to the rural community however , today due to rampant shift of rural population to the urban areas in search of alternate occupation the thrust to cater to this urban segment has also, been introduced.

In the Indian context the Reserve Bank of India has taken active steps to build the Financial Inclusion infrastructure catering to the needs of this under privileged rural and urban segment. The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches due to difficult access in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Further to reach to the unreached the government of India announced "Pradhan Mantri Jan Dhan Yojna," a national financial inclusion mission, which aims to provide bank accounts to at least 75 million people by January 26, 2015. To achieve this milestone, it's important for both service providers and policy makers to have readily available information outlining gaps in access and interactive tools that help better understand the context at the district level.

In India, 62% of the population lives in rural areas and they are either un-banked or financially excluded population; nevertheless, there is also a significant amount of the urban population of India who faces the same situation even with easy access to banks. Many of the financially excluded in these areas are illiterates earning a meager income just enough to sustain their daily needs.

Financial Exclusion is a situation by which a certain section of the population or a certain group of individuals is denied access to basic financial services. It is a serious concern among the low-income households as well as small businesses, mainly located in urban and rural areas. It is the unavailability of banking services to people living in poverty. According to K. C. Chakraborty "Financial Exclusion" is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers". There are 3 types of exclusions:

a) People who do not have any access to a regulated financial system;
b) People who have limited access to banks and other financial services; and
c) Individuals who have inappropriate products.

Financial exclusion makes poor people vulnerable to moneylenders. It breeds poverty and hinders overall development of a country. It not only widens the "Rich-Poor divide", it also leads to "Social exclusion". There are a variety of reasons for financial exclusion. The reasons are:

1. Lack of banking facility in the locality (i.e. geographical exclusion including a rural-urban divide);
2. Financial illiteracy;
3. Nonchalant attitude of the staff;
4. Cumbersome documentation and procedures;
5. Unsuitable products;
6. Language;
7. Feeling uncomfortable by a section of population in visiting a bank branch;
8. Lack of awareness and initial inhibitions in approaching a formal institution;
9. Low incomes/assets;
10. Distance from branch and branch timing;
11. Fear of refusal.

The financially excluded sections largely comprise marginal farmers, landless laborers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, tribal, ethnic minorities and socially excluded groups, senior citizens and women. While there are pockets of large excluded population in all parts of the country, the North East, Eastern and Central regions contain most of the financially excluded population. For such people, banking still remains an unknown phenomena or an elitist affair. It is easier for them to keep their money in their houses or with some moneylenders (as larger chunk of the populous is engaged in agriculture and allied activities) and easily make immediate purchases (which make up most of their expenditure) rather than to follow the cumbersome process at banks. A lot of the financially excluded populations are at the mercy of moneylenders or pawn shop owners. Their inclusion in the formal banking structure will also have the benefits that the others enjoy. By making them financially inclusive, their financial position will be less unpredictable. At the same time, this will help to treat them equal or on par with other members of the population so that they would not be denied of access to a basic service such as banking.

Though banking in India originated in the last decades of the 18th century in the present scenario Indian banking has grown up uniquely keeping in terms with the global standards. Banking in India is fairly mature in terms of supply, product range and reach. On the product front, the innovations have led to emergence of complex offerings like swaps, derivatives and securitization, while on the other hand, the delivery channel is no more limited to brick and mortar branches, but has spread to modern, technology-driven channels like ATMs, mobile, internet and the social media, besides the Business Correspondent model. Thus, over the years, there has been tremendous amount of progress and innovations in this sector. In spite of these developments reach in rural India and to the poor still remains a challenge. Hence, this has raised certain pertinent questions:

- Whom have these innovations benefited?
- Are these product offerings demand driven?
- Have the banks addressed the 'suitability and appropriateness' question?
- Have the charges for various services been made transparent and non-discriminatory? Why banks are still a place where ordinary mortals fear to tread?
- Why has a large section of the society remained financially excluded despite sincere efforts of the regulator as well as the policy makers?

The government has developed initiatives to address these issues of reach to unreached, through the State Bank of India and other various banks expanding its branch network, through the National Bank for Agriculture and Rural Development (NABARD), through the micro financing activity.

The term financial inclusion has taken on a multitude of meanings and is too often perceived as an outcome by itself, rather than a means to an end. To some, it is simply conceived as access to a local bank branch, while to others it has expanded to encompass a wide variety of measurements hinging on the psychological tendencies and patterns of behavior of each individual. There is no accepted or unified definition in the global community, and each entity seems to support and push for their own characterization. There are three major schools of thought surrounding the definition, each weighting measures of "inclusion" differently. The original definition is shallow and therefore outdated as it is only concerned with broad density indicators such as ATMs per capita or accessibility of bank branches (World Bank, 2013). The term subsequently evolved to incorporate a variety of indexes and indicators, with financial inclusion moving toward a definition as "the share of the population that uses formal financial services". However, others have moved well beyond this to far more comprehensive concepts that define financial inclusion as the combination of financial access, financial capability and engagement with the financial system .

Financial inclusion is emerging as a priority for policymakers and regulators in financial sector development. An increasing number of countries introducing comprehensive measures to improve access to and usage of tailored financial services, informed by a fast-growing body of experience and knowledge. More than 60 countries have initiated financial inclusion reforms in recent years. The growing priority placed on financial inclusion is illustrated by the commitments made by financial regulators from more than 20 developing countries to financial inclusion and to financial education under the Maya Declaration.

The ILO Declaration of Philadelphia in 1944 proclaimed that "Poverty anywhere is a threat to prosperity everywhere." It is universally agreed now that Financial Inclusion helps build domestic savings, bolster household, domestic and financial sector resilience and stimulate business and entrepreneurial activity, while exclusion leads to increasing inequality, impediments to growth and development. Thus, financial inclusion is an important tool for poverty alleviation as it not only connects individuals to the formal financial system, but also inculcates savings habit among them. Hence, Financial Inclusion or inclusive banking is a precursor for inclusive and sustainable economic growth.

FI can be thought of in two ways. One is exclusion from the payments system –i.e. not having access to a bank account. The second type of exclusion is from formal credit markets, requiring the excluded to approach informal and exploitative markets. After nationalization of major banks in India in 1969, there was a significant expansion of branch network to unbanked areas and stepping up of lending to agriculture, small industry and business. More recently, the focus is on establishing the basic right of every person to have access to affordable basic banking services.

Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. Financial inclusion helps to bring excluded groups to finance. It yields uniform economic development, both spatially and temporally, and ushers in greater economic and social equity. It aims at reducing poverty and brings greater equity in the country. No-frills account encourages the savings habit of the masses. It helps bring a large section of the underprivileged people into the banking net. It encourages bringing un-banked customers into financial mainstream. All this results in escalating/accelerating the economic development of the country.

A well developed financial system is essential for a faster and broad-based economic growth. It is highly important for economic development and human wellbeing. It brings poor people in to the mainstream of the economy and allows them to contribute more actively to their personal economic development (UN 2006). These groups constitute a significant part of the beneficiaries. But access to finance by the poor, weaker sections and the marginalized is woefully limited due to several reasons. This necessitates a good mechanism to make financial inclusion operational. As they do not have any access to the banks. The access of the poor to the banking services is important for the alleviation of the poverty. Their access to the banking services will contribute a lot to the growth and development of our country's economy. A well developed financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to economic development both individually and collectively. This is the essence of "financial inclusion", a new paradigm in the economics of growth and development. Financial inclusion as a corollary of social intermediation has both regional (global and local) and human perspectives. Nearly 60% of India's population does not have a bank account; 90% of small businesses have no link with the formal financial sector. Therefore, it has emerged as a significant strategy of "growth with equity" in the emerging economies like India.

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. 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 is important as it ensures that everyone has access to appropriate financial services, enabling them to:

- Manage their money on a day-to-day basis, effectively, securely and confidently
- Plan for the future and cope with financial pressure, by managing their finances to protect against short term variations in income and expenditure, and to take advantage of longer term opportunities, and
- Deal effectively with financial distress, should unexpected events lead to serious financial difficulty (Treasury, 2007)

People who achieve these objectives will enjoy significantly improved outcomes.

In order to manage the money effectively, people need first, to have access to a transactional bank account, and second, to have the confidence to make full use of it. People who do not have or use a bank account pay more for goods and services, and more to access their money. For example: Essential utilities, such as energy and telecommunications, cost less for those who are able to make payments regularly from a bank account, and Cheques can be paid into a bank account for free, whereas those cashed at a cheque-cashing outlet attract a charge of 10 percent or more There are a vast number of people, potential entrepreneurs, small enterprises and others, who are excluded from the financial sector, which leads to their marginalization and denial of opportunity for them to grow and prosper. The Reserve Bank has therefore explicitly put 'enabling access to a greater number of the population to the structured and organized financial system' on the agenda of the Reserve Bank since 2004.

Affordable credit, savings and insurance products help people plan for the future and manage short term fluctuations in income and expenditure. They can provide a financial buffer - taken for granted by most people - against a range of short term contingencies, both known and unknown. People find it much easier to cope with the pressure of expected and unexpected spending - such as spending for a festival, or repairing the pumps- if they are able to borrow small sums of money affordably, over a short period of time, or if they have saved even a small sum of money. And insurance can be used to protect against potential losses arising from risks to assets like small warehouse or life. People without access to these products are often forced into using high cost sources of lending instead, including home credit or, worse, illegal loan sharks who use fear and intimidation to exhort huge sums from their victims.

In addition to managing the short term financial fluctuations that everyone experience, financial inclusion also enables people to get through the more serious problems that can sometimes arise. Long term sickness, unemployment, or family breakdown can all lead to over indebtedness and financial distress. People finding themselves in this situation need help of a qualified money adviser, which is why the government's strategy for helping people deal with distress has focused on the provision of free face-to-face and telephone money advice. Beyond money advice, access to financial services (such as credit, savings and insurance) can provide a buffer against financial distress by preventing small problems from getting out of control. Financial inclusion can also offer a route out of distress through the help and support of financial services providers. This means that providers also have a responsibility to help people through difficulty.

According to the RBI it is 'connecting people' with the banking system and not just the delivery of credit. Micro finance is micro credit plus. RBI defines 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 mainstream institutional players.

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 and 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.

Most of the growth in India in the last few years is from the Industry and Services sector. Agriculture is growing at a little over 2 %. The potential for growth in the primary and SME sector is enormous. Limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors. Access to affordable financial services especially credit and insurance – enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such empowerment aids social and political stability. Apart from these benefits, FI imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence FI is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable overall growth in the country.

The approach to FI in developing countries such as India is thus somewhat different from the developed countries. In the latter, the focus is on the relatively small share of population not having access to banks or the formal payments system whereas in India, we are looking at the majority who are excluded.

Good Governance: an Essential Pre-Requisite to achieve Financial Inclusion

The vision of inclusive growth and governance dictates the need to broaden and deepen access to development finance for all. Only well functioning and efficiently governed financial institutions can provide financial services to meet the growing needs of the economy. Despite early recognition of the need for universal financial inclusion, a large cross-section of the population remained financially excluded. Through various measures initiated by the regulator/Government in the post-independent period resulted in impressive gains in rural outreach and volume of credit, the structure suffered from inherently weak governance. The achievements were 'quantitatively impressive, but qualitatively weak'. Due to the target driven approach to social banking, the initiatives were not part of the business strategy of banks. The effort on the part of the banks was always aimed at somehow meeting the lending targets, mostly at subsidized rates of interest, or with subsidy from the Government under various governments directed schemes.

Overtime and especially, in the wake of the adoption of the RBI encouraged structured Financial Inclusion Framework adopted by banks over the last few years, there has been substantive development in the architecture and thinking on financial inclusion. There has been a growing realization that there is no "one-size-fits-all" financial inclusion strategy which can be cloned over the length and breadth of our country, although few core conditions are essential to maximize the benefits derived from such a strategy. Effective Governance is the most predominant of these conditions and is, in fact, a sine qua non for achieving financial inclusion.

Effective financial inclusion cannot be achieved until the entire structure of the financial inclusion programme is supported by good governance. Good governance in financial inclusion programme is supposed to be achieved by having a planned and structurally integrated framework, supported by a policy vision. As a first step towards creating this governance structure, effort has been made to precisely define financial inclusion and all ingredients associated with it.

Microfinance and Financial Inclusion

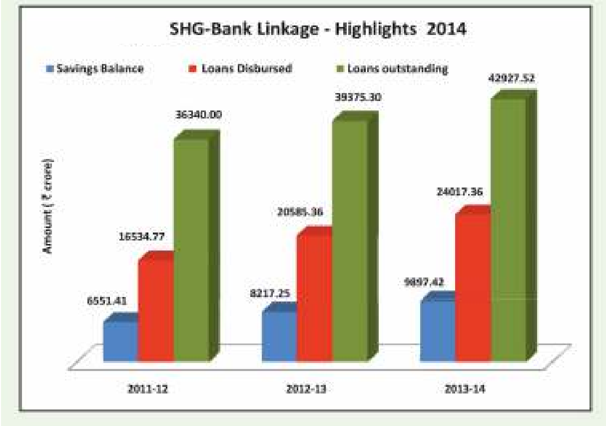
Microfinance programmes are intended to reach poor segments of society as they lack access to financial services. It, therefore, holds greater promise to further the agenda of financial inclusion as it seeks to reach out to the excluded category of population from the banking system. The predominant micro finance programme namely SHG bank linkage programme has demonstrated across the country its effectiveness in linking banks with excluded category of poor segments of population. In this process, the role of development NGOs is quite pronounced in providing the last mile connectivity as enablers and catalyst between the SHGs / Village level co-operatives and the banks. This is also supplemented by the MFIs delivering credit.

MFIs consist of Refinance Institutions, Banks, Non Government Organisations and Self Help Groups dealing with small loans and deposits in rural, semi urban or urban areas enabling people to raise savings, productive investments and thereby their standard of living . One of the ways in which access to formal banking services has been provided very successfully since the early 90s is through the linkage of Self Help Groups (SHGs) with banks. SHGs are groups of usually women who get together and pool their savings and give loans to members. Usually there is a NGO that promotes and nurture these groups.

National Bank for Agriculture and Rural Development has played a very significant role in supporting group formation, linking them with banks as also promoting best practices. The SHG is given loan against guarantee of group members. The recovery experience has been very good. Banks provide credit to such groups at reasonable rates of interest. However the size of loans is quite small and used mostly for consumption smoothening or very small businesses. In some SHGs, credit is provided for agricultural activities and other livelihoods and could be several times the deposits made by the SHG. Microfinance has drawn attention to an entire sector of borrowers who had been previously poorly served by the formal financial sector - and MF has demonstrated how to make lending to this sector a viable proposition. However the rates of interest charged are quite high, typically 12 to 30 per cent, mainly on account of the high transaction cost for the average loan size that can be quite small. Compared to the informal sector, perhaps the rates are lower, but issues are raised whether these rates are affordable - in the sense whether they would leave any surplus in the hands of the borrowers and lead to higher levels of living. For commercial banks, the lower cost of funding, advantages of size and scale gives scope for cross subsidization and their interest rates are more competitive compared to the MFIs, but they have not been as successful in dealing with the last mile issue. The partnering with SHGs and MFIs with reasonable cost of funding by the banks has been seen as a more optimal approach till now .The financial inclusion attained through SHGs is sustainable and scalable on account of its various positive features. One of the distinctive features of the SHGBLP has been the high recovery rate. However the spread of SHGs is very uneven and is more concentrated in southern states. This regional imbalance needs to be corrected and special efforts in this regard may have to be made by NABARD. SHGs also needed to graduate from mere providers of credit for nonproductive purposes to promoting micro enterprises. However, there is no need to provide interest rate subsidy to the SHGs.. The SHG-Bank Linkage Programme launched by NABARD in 1992 continues to be the predominant Micro-Finance (MF) model in the country. It represents the union of the banking system comprising the public and private sector commercial banks, Regional Rural banks (RRB), and Co-operative Banks with several organizations in the formal and semiformal sectors to facilitate the provision of financial services to a large number of poor clients. It is a proven method of financial inclusion, providing un-banked rural clientele with access to formal financial services from the existing banking infrastructure. Micro finance still plays a modest role in India. At the All India Level less than 5 per cent of poor rural households have access to micro finance. Financial inclusion is not just credit dispensation, it's about connecting the people with the banking system for availing bouquet of financial services including access to payment system. The critical issue, in the first place, is to connect and the SHG bank linkage programme since the 90s ranks, by far, the major programme initiative without parallel in any parts of the world for the financial inclusion. The uniqueness of the SHG Bank Linkage programme lies in the fact that it is not mere delivery of financial services but has an inherent design for promoting financial literacy. As the financial literacy increases, the financial inclusion gets more sustainability and stability in terms of being inclusive on a long haul. With more than 2.3 million SHGs reaching more than 30 million poor households the first small but significant step has been taken in financial inclusion. The SIDBI engagement with Microfinance institutions has proved to be a significant step forward with MFIs chipping in effective compliment for the banking system as a vehicle for delivery and connectivity. Interestingly, there have been many development interventions on livelihoods, watershed and tribal development in the country with the initiative of development NGOs, which have been furthering the financial inclusion by linking the programme participants with the banking system. SHG and Bank linkage SHG bank linkage by far is an effective instrument for financial inclusion. Considering the importance of linkage the bank accounts of SHGs provide the first link for the members of SHG for graduation to individual family accounts in due course. This process need to be respected and encouraged to facilitate informed inclusion process. That opening of bank accounts (Savings) is the beginning of beginning of the financial inclusion process, that is means to achieve larger end of financial inclusion. That the federation of SHG as an apex body plays an effective complementary role to spread the financial inclusion .To achieve faster spread of financial inclusion, it is vital that the stake holders and it particular commercial bank recognize the need to take the banking services with the technological support to the people rather than waiting for the people to reach out to the banks. 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. Technology can be a very valuable tool in providing access to banking products in remote areas. ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English. The 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. NGOs have played a commendable role in promoting SHGs and linking them with banks. NGOs, being local initiators with their low resources, are finding it difficult to expand in other areas and regions. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas. Our banking system must be prepared to deal with the opportunities of higher growth, and the challenges of ensuring more equitable growth. In dealing with the needs of rural enterprises and of small and medium enterprises in urban areas, banks have to look for new delivery mechanisms. These must economize on transaction costs and provide better access to the currently under-served. To serve new rural credit needs, innovative channels for credit delivery will have to be found. A key requirement of greater “financial inclusion” would be a reduction of transaction costs. In view of the rising micro-financing activities in the country, a need has been felt to regulate the unregulated business in this sector and also provide legal framework to facilitate the credit flow in rural areas.

Modern microfinance could be said to have originated in Bangladesh, as Mohammad Yunus built upon earlier models of small-scale lending (the ‘Comilla model’) to create a network of lending that was eventually formalised in Grameen Bank in 1983. Yunus and others, in which NGOs focused on development and poverty reduction were the dominant providers, was gradually phased out during the 1990s, to be replaced by a model that emphasised ‘full-cost recovery’ and thereby paved the way for a more market-oriented approach that would accommodate and even encourage for-profit microfinance.

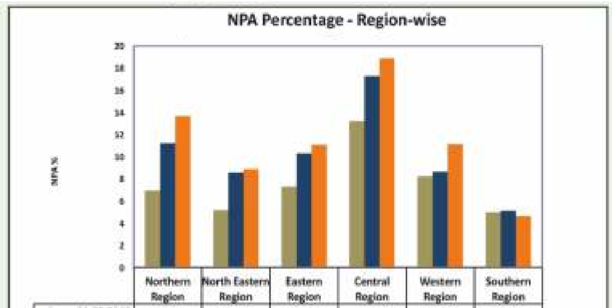
Over the past decade India has become the most dynamic country for microfinance with the number of borrowers increasing 5-fold in just six years until 2010. Microfinance has been concentrated in just two states: Andhra Pradesh and Tamil Nadu. Microfinance in India, as elsewhere, originally began as part of a developmental and poverty-reduction project, led by NGOs who thought this would be an effective way of allowing the poor to lift themselves out of poverty by their own efforts. Many NGOs began the process of group lending based on self-help groups (SHGs) and the linkage with commercial banks (whereby banks were allowed to lend to groups with a proven track record of repayment) further enlarged its scope. SHGs and their federations became the intermediaries between individual clients (who were mostly women) and the commercial banking system through the SHG–Bank Linkage Programme (SBLP). The basic methodology being used in commercial microfinance in India was broadly along the lines innovated by Grameen Bank and later adapted by several players. This involved three steps: (i) identifying potential customers, typically on the basis of some measure of poverty, which also ensured significant homogeneity among customers; (ii) organising them into groups (SHGs) that effectively dealt with the problems of information asymmetry described earlier; and (iii) offering standardised products based on standardised operating systems, with strict enforcement of discipline that ensured that the exceptions were dealt with severely. There were some differences from the Grameen model, particularly in the role of the SHGs. An SHG has 10–20 members and each member saves a certain amount every month; the SHG lends the collective savings on a monthly basis to its members sequentially on terms decided by the group. Further: In addition to group-generated funds, the group may also borrow from outside, either from the commercial bank with which it maintains a group account or from the NGO sponsoring it, in order to supplement the group's loanable funds. As SHG members maintain their individual accounts with the SHG (and not with the sponsoring NGO), the SHG is the retailer in the Indian case and performs most of the transaction functions, unlike in Bangladesh, where the microfinance institution is the retailer. National Bank for Agriculture and Rural Development (NABARD 2011) estimates that currently around 97 million households have access to regular savings through 7.46 million SHGs linked to different banks. About 4.78 million SHGs also have access to direct credit facilities from banks; around 82% of these are women-only SHGs.



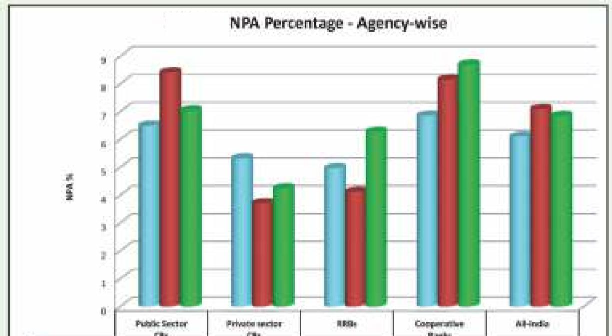
The focus on women borrowers has been a major feature of microcredit provision in India as in Bangladesh and is frequently cited as one of the ongoing public strategies for women's economic empowerment. Indeed, loan recovery pressures from banks have added to the push factors (such as household livelihood stress, medical costs, migration, etc.) that drive poor women out of microcredit programmes. Bank pressure also creates tensions within SHGs that undermine solidarity and social cohesion among women. When 'developmental' or donor funds were not forthcoming, MFIs could not access private investors because they could not distribute the profits made, which made it harder for them to access adequate capital for expansion. This led to the drive for 'transformation' of the industry: the move from a not for-profit to a for-profit format. While the MFIs of the 1990s were all started with the explicit intention of broader public purpose, and therefore spearheaded by NGOs, in the 2000s several of them transformed into for-profit entities and new ones emerged that originated with a for-profit intention. By 2009, the 233 MFIs that reported to the umbrella organisation Sa-Dhan apparently served 22.6 million clients independently of SBLP, with nearly two-thirds of this outreach being accounted for by for-profit MFIs (Sa-Dhan, 2009, quoted in Copestake, 2010). This process was actively assisted by the public sector bank SIDBI (Small Industries Development Bank of India). In addition, the former development bank ICICI Bank, which had itself transformed into a commercial bank that aggressively sought new profit-making opportunities, launched a securitisation product in 2003, wherein it would buy out the portfolio of the MFIs in return for an agreement for collection of the loans. Every time a portfolio was bought out, the MFI would get the ability to lend and borrow more and therefore expand. At the time, this process was widely celebrated as a 'win–win situation', as private profit could be associated with financial inclusion, extending formal financial institutions to the poor who were otherwise excluded. However, the problems with this for-profit model speedily emerged, as the excessively high interest rates and often unpleasant and undesirably coercive methods that were used to ensure repayment showed that these new 'modern' institutions were no different from the rapacious traditional moneylenders that were supposed to be displaced by the more supposedly acceptable norms of institutional finance. As it happens, most MFIs charge interest rates of anywhere between 30% and 60% per year, with added charges and commissions and penalties for delayed payment. The rates are therefore not dissimilar to the rates charged by traditional moneylenders and other informal lenders in rural India. In a study that examines in detail the 'transformation' of four prominent MFIs in India (SKS Microfinance Ltd, Share Microfin Ltd, Asmitha and Spandana), he noted that in some cases this was also associated with the private enrichment of the promoters through various means. These included inflated salaries and stock options provided to the top management, who were usually the promoters. A more interesting legal innovation was the use of mutual benefit trusts (MBTs) that aggregated the member-borrowers of SHGs as members. The grant money received for the purposes of 'developmental' microcredit could then be placed in the MBT, which would in turn contribute to the newly created for-profit MFI. In the case of two of these companies (Share Microfin and Asmitha) the matter was compounded by cross-holding, since the promoters of the two companies were the same family.

The NPA percentage among MFIs has been reported only in the Southern Region with high progress, while all other regions have continued with the upward swing in NPAs during the year. The NPA in the central region which comprises Madhya Pradesh, Uttar Pradesh, Chattisgarh and Uttarakhand is near 19% while other resource poor regions like Eastern Region reported over 11%. Some of the States in the NE region has reported NPA of over 50% which is highly unsustainable. As efforts are being made to spread the reach of SHG-BLP to the resource poor regions, the continued upsurge in NPAs in these regions needs to be viewed quite seriously. The total NPA against loans to SHGs stood at ` 2933 crore as on 31.3.2014 against the total outstanding loan of ` 42928 crore. Among the regions, southern region with a NPA of 4.64% (5.11% last year) was the lowest while Central Region with an alarming 18.87% (17.28% last year) was the highest. Among the major States reporting high NPA are: UP 20.07%, MP 19.31%, Gujarat 19.81%, Odisha 18.91%, Haryana 15.84%, Jharkhand 12.82% and Chattisgarh 12.44%. Even Tamil Nadu which is among the pioneer states to commence the SHG-BLP has reported nearly 11% NPA this year.

There are over 500 million economically active poor people in the world operating microenterprises and small businesses, most of whom do not have access to adequate financial services .Microfinance can foster enterprise and productivity growth by allowing working capital needs to be met, by enabling investment in productive equipment and by facilitating the development of innovative production methods and new markets. The segment for micro enterprises targets male and female micro-entrepreneurs whose income exceeds the poverty line but whose businesses are smaller than small & medium enterprises (SMEs). This middle group of micro-entrepreneurs does not qualify for the formal capital available to the SME segment, although they tend to run businesses larger than those of



	Northern Region	North Eastern Region	Eastern Region	Central Region	Western Region	Southern Region
As on 31.03.2012	6.92	5.17	7.28	13.2	8.22	4.98
As on 31.03.2013	11.19	8.56	10.3	17.28	8.63	5.11
As on 31.03.2014	13.67	8.88	11.07	18.87	11.11	4.64



	Public Sector CBs	Private sector CBs	RRBs	Cooperative Banks	All-India
As on 31.03.2012	6.48	5.3	4.95	6.84	6.09
As on 31.03.2013	8.39	3.69	4.1	8.13	7.08
As on 31.03.2014	7.02	4.22	6.26	8.67	6.83

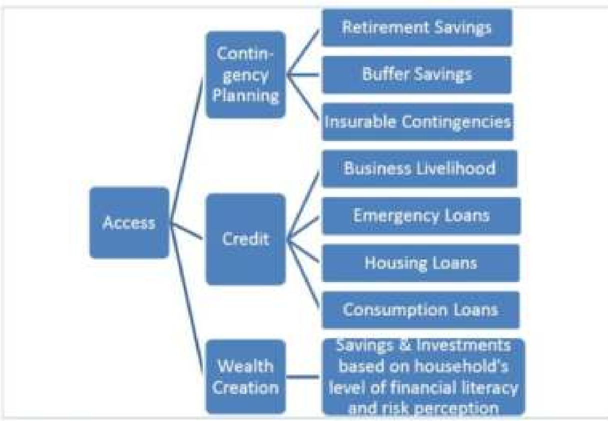
microfinance clients and thus enjoy relatively higher incomes and financial capacities. Due to lack of collateral and documentation, they face difficulties accessing formal credit. Microfinance assists such micro enterprises which are group or cluster based in accessing capital. Peer pressure maintains low level of NPA in such groups . Thus microfinance promotes the establishment or growth of microenterprises, thus increasing the standard of living of the economically backward, improving their access to health care and education thus reducing vulnerability.

In a broad view formation of SHG groups linked with bank have facilitated the upliftment of the rural and urban masses through microfinance thus leading to financial inclusion.

Role of RBI in Microfinance and Financial Inclusion

RBI has been following a planned and structured approach to address the twin issues of demand and supply of financial services. The efforts have been aimed at creating an enabling environment for the banks. Wide-ranging strategies from a relaxation of regulatory guidelines to provision of new products and supportive measures have been adopted to achieve sustainable and scalable Financial Inclusion.

Household access to financial services:



Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. RaghuramRajan).

Although, financial services are available to poor people, they are compelled to pay four times the price we pay for them because they are not linked to formal financial system and have to rely on unreliable informal sector providers.

Recent Important Guidelines on Financial Inclusion

2006: In January, banks were allowed to enlist non-profit Bank Mitr (Business Correspondent) as agents for delivery of financial services, acting in the capacity of 'last-mile infrastructure'.

2008: In April, it was determined that BCs should be located not more than 15 kilometres from the nearest bank branch, so as to ensure their adequate supervision. This was a very restrictive rule that severely limited the expansion of this model.

2008: The RBI issued operative guidelines for mobile banking and amended the same in December 2009 to ease the various transaction limits and security norms.

2009: Individual for profits were allowed to participate as BCs, and this category included kirana store , gas stations, PCOs etc. Further, BCs were allowed to operate up to 30 kilometres from the nearest bank branches.

2009: Banks were allowed to apply 'reasonable' service charges from customers to ensure viability of the BC model, and to pay a 'reasonable' commission/fee to the BCs to incentivize them.

2010: In June the RBI and TRAI were able to reach an initial agreement regarding the rollout of mobile banking, whereby TRAI would deal with all interconnection issues and RBI would handle the banking aspects such as KYC checks, transaction limits etc.

2010: In September, all companies listed under the Companies Act (1956) were allowed to act as BCs, with the exception of non-bank financial companies.

2010: The same directive determined that the distance rule was open to and optional relaxation in certain cases, based on the decision of the State Level Bankers' Committees.

However, document verification falls under the domain of the banks, to ensure adherence to KYC norms. This does slow down the account opening process.

2011: RBI issued guidelines for opening Aadhaar Enabled Bank Accounts to facilitate routing of MGNREGA wages and other social benefits in to the accounts using EBT.

2012: RBI permitted Aadhaar letter as a proof of both Identity & Address for the purpose of opening of bank Accounts

2012: GoI introduced Sub Service Area (SSA) approach for opening of banking outlet and for Direct Cash Transfer.

2012: Aadhaar Payment Bridge System (APBS) was introduced for centralised credit of Social Benefits.

Guidelines on Direct Benefit Transfer issued by GoI.

2013: To ease the account opening process RBI permitted to use e-KYC.

TRAI issued guidelines on USSD based mobile banking services for FI.

2014: RBI issues guidelines for scaling up of Business Correspondent model.

RBI- Bank Led Model

RBI had adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

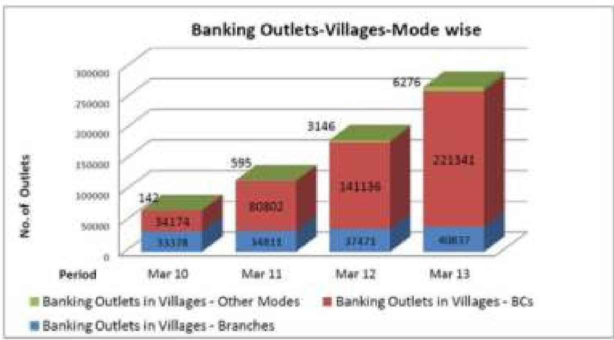
- Advised all banks to open *Basic Saving Bank Deposit (BSBD)* accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.
- *Relaxed and simplified KYC norms* to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address[9].
- *Simplified Branch Authorization Policy*, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern Sates and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain conditions.
- *Compulsory Requirement of Opening Branches in Un-banked Villages*, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.
- *Opening of intermediate brick and mortar structure*, for effective cash management, documentation, redressal of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.
- Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.
- Banks have been advised that their *FIPs should be disaggregated and percolated down up to the branch level*. This would ensure the involvement of all stakeholders in the financial inclusion efforts.
- In June 2012, revised guidelines on *Financial Literacy Centres (FLCs)*. Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

Financial Inclusion Plan of banks

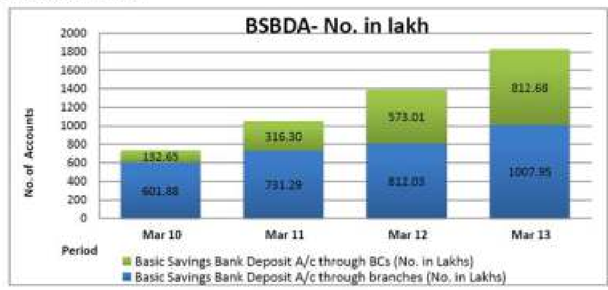
We have encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs). The first phase of FIPs was implemented over the period 2010-2013. The Reserve Bank has used the FIPs to gauge the performance of banks under their FI initiatives. In this direction we have put in place a structured and comprehensive monitoring mechanism for evaluating banks' performance vis-à-vis their targets. To ensure support of the Top Management of the Bank to the Financial Inclusion process and to ensure accountability of the senior functionaries of the bank, one on one annual review meetings are held with CMDs/CEOs of banks.

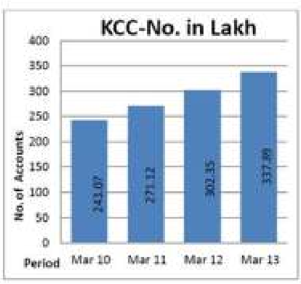
A snapshot of the progress made by banks under the Financial Inclusion Plan during the period from April 2010 to March 2013 are as follows:-

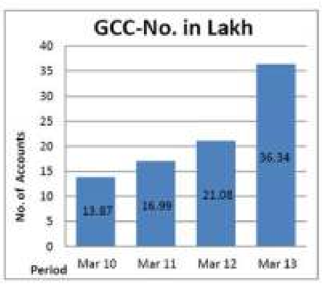
- Banking outlets in villages have increased to nearly 2,68,000 from 67,694 outlets in March 2010.
- About 7,400 rural branches have been opened during this 3-year period compared with a reduction of about 1300 rural branches during the last two decades.
- Nearly 109 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added, taking the total number of BSBDA to 182 million. The share of ICT-based accounts has increased substantially. The percentage of ICT accounts to total BSBDAs increased from 25 per cent in March 2010 to 45 per cent in March 2013.
- With the addition of nearly 9.48 million farm sector households during this period, 33.8 million households have been provided with small entrepreneurial credit as at the end of March 2013.
- With the addition of nearly 2.24 million nonfarm sector households during this period, 3.6 million households have been provided with small entrepreneurial credit as at the end of March 2013.
- About 490 million transactions have been carried out in ICT-based accounts through BCs during the three-year period.



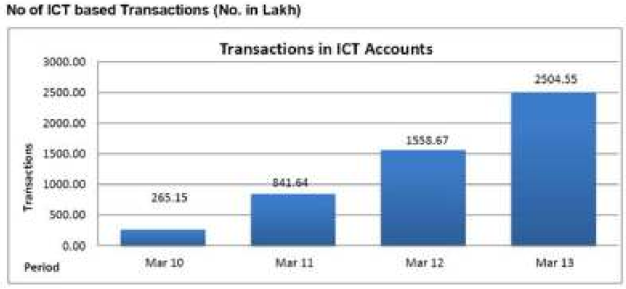
BSBDA (No. in Lakh)







No of ICT based Transactions (No. in Lakh)



RBI has now created a large banking network and have also managed to open a large number of small accounts. The focus under the FI plan has now shifted towards leveraging the banking network created for extending other products viz. credit, etc. which will help make the business more viable for banks. This would also ensure that the large number of accounts opened see large volume of transactions taking place and people reap the benefits of getting linked to the formal financial institutions.

Steps taken by Reserve Bank of India (RBI): To strengthen the Banking Infrastructure –

1. RBI has permitted domestic Scheduled Commercial Banks (excluding RRBs) to open branches in Tier 2 to Tier 6 Centres (with population upto 99,999 as per census 2001) without the need to take permission from RBI in each case, subject to reporting.

2. RBI has also permitted SCBs (excluding RRBs) to open branches in rural, semi urban and urban centres in North Eastern States and Sikkim without having the need to take permission from RBI in each case, subject to reporting.

3. Regional Rural Banks (RRBs) are also allowed to open branches in Tier 2 to Tier 6 centres (with population upto 99,999 as per Census 2001) without the need to take permission from the Reserve Bank in each case, subject to reporting, provided they fulfill the following conditions, as per the latest inspection report:

- CRAR of at least 9%;
- Net NPA less than 5%;
- No default in CRR / SLR for the last year;
- Net profit in the last financial year;
- CBS compliant.

a. Domestic SCBs have been advised that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate atleast 25% of the total number of branches proposed to be opened during the year in unbanked Tier 5 and Tier 6 centers i.e. (population upto 9999) centers which do not have a brick and mortar structure of any SCB for customer based banking transactions.

b. RRBs have also been advised to allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) Centers).

c. New private sector banks are required to ensure that at least 25% of their total branches are in semi-urban and rural centers on an ongoing basis.

Direct Benefit Transfer (DBT) - The objective of DBT Scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme has been launched in the country from January, 2013 and has been rolled out in a phased manner, starting with 26 welfare schemes, in 43 districts. The scheme is now being extended to additional 78 districts and additional 3 schemes from 1st July, 2013 and would be extended to the entire country in a phased manner.

The Government has also started the transfer of cash subsidy for domestic LPG cylinders to Aadhaar linked bank accounts of the customers with effect from 1st June 2013, in 20 pilot districts. About 75 lakh beneficiaries would be benefited in these districts. Banks play a key role in implementation of DBT and this involves four important steps, viz.

- Opening of accounts of all beneficiaries;
- Seeding of bank accounts with Aadhaar numbers and uploading on the NPCI mapped;
- Undertaking funds transfer using the National Automated Clearing House - Aadhaar Payment Bridge System (NACH-APBS).
- Strengthening of banking infrastructure to enable beneficiary to withdraw money.

Banks are ensuring that all beneficiaries have a bank account. All Public Sector Banks (PSBs) and RRBs have made provision for Aadhaar seeding in the CBS. All PSBs have also joined the Aadhaar Payment Bridge of National Payments Corporation of India (NPCI). Banks are also issuing debit cards to beneficiaries. Banks have also started action for strengthening banking infrastructure and providing business correspondents in areas, which were so far un served. Banks have also been advised to provide an onsite ATM in all the branches in identified districts and a Debit Card to all beneficiaries to enable him / her to withdraw the money as per his ease and convenience. Issuance of a Debit Card to all beneficiaries to enable him / her to withdraw the money as per his ease and convenience will also strengthen the withdrawal infrastructure.

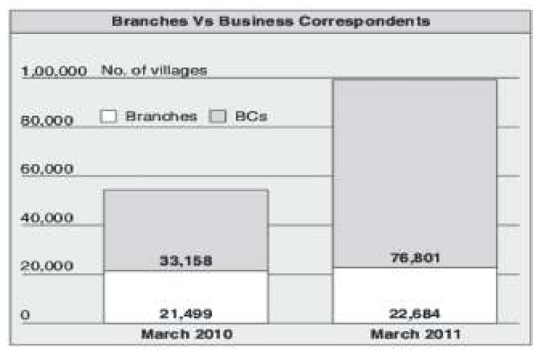
Expansion of ATM network: Pursuant to Budget announcement 2013-14, Banks are required to ensure an onsite ATM in all the branches. Out of 34,668 onsite ATMs thus identified to be installed by Public Sector Banks, 1,097 ATMs have been installed by end of April, 2013.

RBI Initiatives for FI

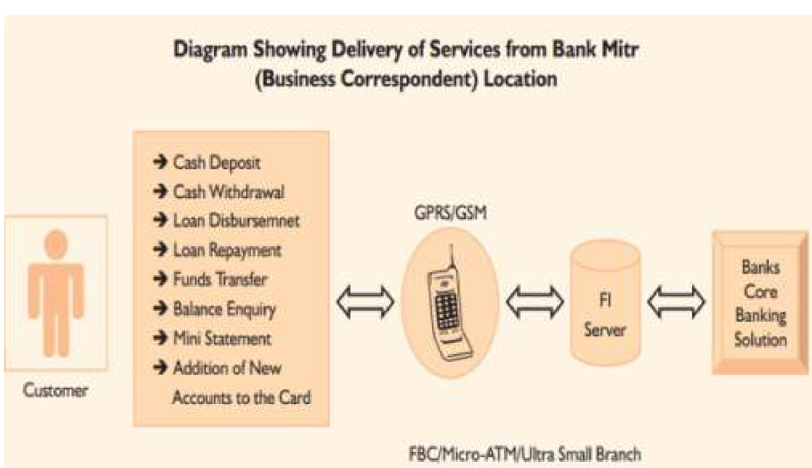
Source: RBI report 2012

RBI- Business Correspondent model

Business Correspondent model as an alternate banking channel has brought a conspicuous change in the financial inclusion landscape of India For the last five years, agent based BC model has played a pivotal role in furthering agenda of financial inclusion across nooks and corners of the country. From just 30,000 banking outlets in about 600,000 villages in India (5% penetration), BCs have helped in increasing the banking penetration to more than 1.07 lakh villages (around 20%). Out of around 80 million No Frills Accounts (NFAs) opened by banks, BCs have opened 50 million (around 72% of total NFAs). The table below shows the status of Financial inclusion in numbers.



No. of Villages in India (inhabited)	600,000
No. of villages covered by banks	107000
No. of BCs empannedled by banks	58,361
Total No. of villages served by BCs	76,081
Total no. of No frills accounts opened by Banks	7.91 Crore
No. of No Frills accounts opened through BCs	5.02 Crore (approx 72%)
> 2000 population villages covered by banks	59,640
< 2000 population villages covered by banks	47,964
Total Unbanked (approx)	**41 Crore**



A research was undertaken and a holistic approach is proposed by Pradhan Mantri Jan-Dhan Yojana (PMJDY) to provide all the citizens of the country with a basket of financial products to enable them financially secure. An illustration showing shift in approach is appended hereunder:

Learning from the past Campaign and Shift in approach

S.No.	Earlier Approach (Swabhimaan)	New Approach (PMJDY)
1.	Villages with population greater than 2000 covered; thus limited geographical coverage	Focus on household; Sub Service Area (SSA) for coverage of the whole country.
2.	Only rural	Both rural and urban
3.	Bank Mitr (Business Correspondent) was visiting on fixed days only	Fixed point Bank Mitr (Business Correspondent) in each SSA comprising of 1000-1500 households (3 to 4 villages on an average) to visit other villages in the SSA on fixed days
4.	Offline accounts opening - Technology lock-in with the vendor	Only online accounts in CBS of the Bank
5.	Focus on account opening and large number of accounts remained dormant	Account opening to be integrated with DBT, credit, insurance and pension
6.	Inter-operability of accounts was not there	Inter-operability through RuPay Debit Card, AEPS etc.
7.	No use of Mobile Banking	Mobile wallet and USSD based mobile banking to be utilized
8.	Cumbersome KYC formalities	Simplified KYC/e-KYC in place as per RBI guidelines
9.	No guidelines on the remuneration of the Bank Mitr (Business Correspondent). Banks went generally with Corporate BCs who used to be least expensive to them	Minimum remuneration of the Bank Mitr (Business Correspondent) to be ₹ 5000/-(Fixed + Variable)
10.	A recent RBI survey finds that 47% of Bank Mitr are untraceable	Viability and sustainability of Bank Mitr (Business Correspondent) is identified as a critical component
11.	Monitoring left to banks	Financial Inclusion campaign in Mission Mode with structured monitoring mechanism at Centre, State and District level
12.	Financial literacy had no focus	The rural branches of banks to have a dedicated Financial Literacy Cell
13.	No active involvement of states / districts	State level & District level monitoring committees to be set up
14.	No brand visibility of the Programme & Bank Mitr (Business Correspondent)	Brand visibility for the programme & Bank Mitr (Business Correspondent) proposed
15.	Providing credit facilities was not encouraged	OD limit after satisfactory operations / credit history of 6 months
16.	No grievance redressal mechanism	Grievance redressal at SLBC level in respective states

National Mission for Financial Inclusion

Under "Pradhan Mantri Jan-Dhan Yojana (PMJDY)", it has been ensured that access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology. The objectives for the same are

Mission Mode Objectives

PMJDY to be executed in the Mission Mode, envisages provision of affordable financial services to all citizens within a reasonable distance. It comprises of the following six pillars:-

a. **Universal access to banking facilities:** Mapping of each district into Sub Service Area (SSA) catering to 1000-1500 households in a manner that every habitation has access to banking services within a reasonable distance say 5 km by 14th August, 2015. Coverage of parts of J&K, Himachal Pradesh, Uttarakhand, North East and the Left Wing Extremism affected districts which have telecom connectivity and infrastructure constraints would spill over to the Phase II of the program (15th August, 2015 to 15th August, 2018)

b. **Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households:** The effort would be to first cover all uncovered households with banking facilities by August, 2015, by opening basic bank accounts. Account holder would be provided a RuPay Debit Card. Facility of an overdraft to every basic banking account holder would be considered after satisfactory operation / credit history of six months.

c. **Financial Literacy Programme:** Financial literacy would be an integral part of the Mission in order to let the beneficiaries make best use of the financial services being made available to them.

d. **Creation of Credit Guarantee Fund:** Creation of a Credit Guarantee Fund would be to cover the defaults in overdraft accounts.

e. **Micro-Insurance:** To provide micro- insurance to all willing and eligible persons by 14th August, 2018, and then on an ongoing basis.

f. **Unorganized sector Pension schemes like Swavalamban:** By 14th August, 2018 and then on an ongoing basis.

Under the mission, the first three pillars would be given thrust in the first year.

Timeline for Financial Inclusion Plan :

Comprehensive Financial Inclusion of the excluded sections is proposed to be achieved by 14th August, 2018 in two phases as under:

Phase I (15th Aug, 2014 - 14th Aug, 2015)

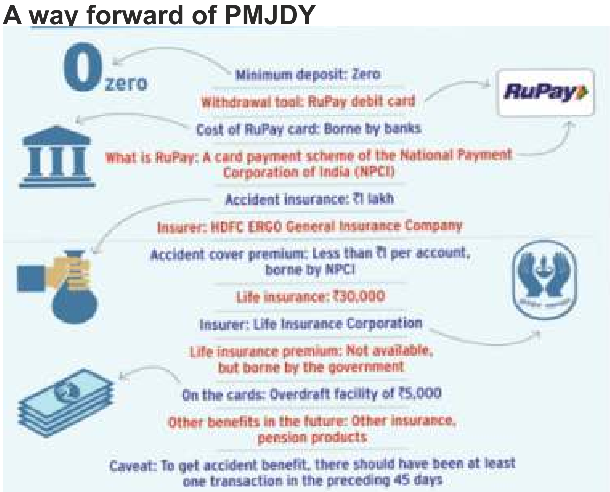
- Universal access to banking facilities in all areas except areas with infrastructure and connectivity constrains like parts of North East, Himachal Pradesh, Uttarakhand, J&K and 82 Left Wing Extremism (LWE) districts.
- Providing Basic Banking Accounts and RuPay Debit card which has inbuilt accident insurance cover of ₹ 1 lakh. Aadhaar number will be seeded to make account ready for DBT payment.
- Financial Literacy Programme

Phase II (15th Aug, 2015 - 14th Aug, 2018)

- Overdraft facility up to ₹ 5000/- after six months of satisfactory operation / history
- Creation of Credit Guarantee Fund for coverage of defaults in A/Cs with overdraft limit up to ₹ 5,000/-.
- Micro Insurance
- Unorganized sector Pension schemes like Swavalamban

Some of the Phase II activities would also be carried out in Phase I. In addition, in this phase, coverage of households in hilly, tribal and difficult areas would be carried out. Moreover, this phase would focus on coverage of remaining adults in the households and students.

A way forward of PMJDY



Recent innovations under Financial Inclusion

RBI has not been found wanting in sofar as experimenting with innovative solutions to further the cause of financial inclusion is concerned. However, we have always believed that innovation does not mean developing complex solutions to simple problems. Also, innovation need not always involve cutting edge technology. Hence, some of the innovative practices we have encouraged banks to follow, merely involves making small adaptations and a change in mindset. Let me explain some of these initiatives.

a) Business Correspondent/ Business Facilitator Model

Beginning January 2006, Reserve Bank has permitted banks to utilise the services of non-governmental organizations (NGOs), micro-finance institutions (other than Non-Banking Financial Companies) and other civil society organisations as intermediaries in providing financial and banking services through the use of Business Facilitator and Business Correspondent (BC) models with an objective of solving the list mile connectivity issue. Banks were encouraged to connect the BC network with their Core Banking Solutions (CBS) and also to develop offline solutions to overcome the network connectivity issues experienced in some areas. As the uptime of the equipments was of paramount importance, the banks were advised to ensure that equipment and technology used by BCs are of high standards. Interoperability of BCs at the retail outlets or sub agents of BCs has also been permitted, provided the transactions were carried out on-line, on CBS. The list of entities that can be appointed as BCs has also been expanded substantially over time.

b) Simplified branch authorization

RBI has considerably relaxed the branch opening norms for banks whereby they do not require prior RBI permission for opening branches in centres with population less than 1 lakh. To further step up the opening of branches in unbanked centres, banks were mandated to open at least 25 per cent of their new branches in unbanked rural centres. Banks have also been advised to consider frontloading (prioritizing) the opening of branches in unbanked rural centres over a three year cycle co-terminus with their Financial Inclusion Plans.

c) Combination of Branch and BC Structure to deliver Financial Inclusion- ICT Based Accounts - through BCs RBI has been advocating a combination of Brick and Mortar structure and the BC network to extend financial inclusion, especially in geographically dispersed areas. In order to provide efficient and cost-effective banking services in the unbanked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions. The use of smart cards, hand held devices / POS machines along with bio-metric authentication facilitate digitization of Financial Inclusion process.

d) Opening of Basic Saving Bank Deposit Accounts (No-frills accounts)

On the products side, banks were directed to make available Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with zero minimum balance and facility of ATM card/Debit card, effectively making opening of a basic savings account a fundamental right for every eligible Indian citizen. Further, banks were also advised to provide in-built overdrafts in such basic savings accounts so as to meet the emergency credit needs of the customer and prevent them from having to approach money lenders in distress situations. The provision for entrepreneurial credit has also been simplified in the form of KCC for farm sector households and GCC for non-farm sector households.

e) Relaxed KYC norms

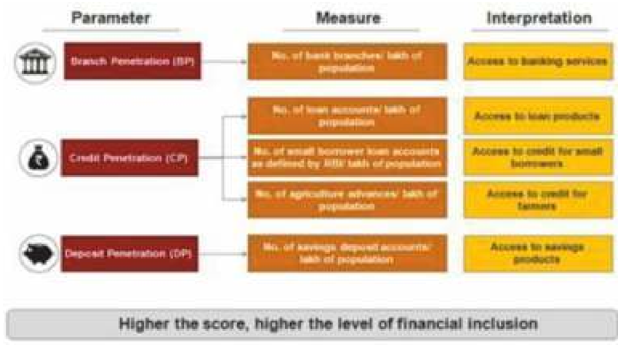
One of the major constraints faced by the people in getting linked to the formal financial system was the strict Know Your Customer (KYC) norms prescribed for opening bank accounts. To facilitate easy opening of accounts, especially for small customers, the KYC guidelines have been simplified to the extent that these accounts can be opened by way of a self-certification in the presence of bank officials. Further, to leverage upon the UIDAI initiative, RBI has allowed 'Aadhaar', to be used as one of the eligible documents for meeting the KYC requirements for opening a bank account. Very recently, the RBI has also allowed banks to use the E-Aadhaar facility provided by UIDAI for KYC purposes.

f) Pricing of advances freed

Banks have been provided the freedom to decide the pricing of loans given to customers with a view to ensuring the economic viability of banks' Financial Inclusion initiatives.

Financial Literacy as a facilitator of Financial Inclusion

As financial markets are becoming increasingly complex with serious problems of information asymmetry, the need for financial literacy and education has become even more acute. Besides, there is a general lack of awareness among the financially excluded population about the benefits of being connected to the formal financial system. This highlights the importance of the task of promoting financial literacy, which faces numerous challenges in a country like India, on account of wide disparities in literacy levels, social/ economic development, widespread use of regional languages, etc. Recognizing the importance of financial literacy as the stepping stone towards financial inclusion, Reserve Bank has taken several steps in recent times for promoting financial literacy. 'Project Financial Literacy' aims at disseminating information regarding the central bank and general banking concepts to various target groups (which includes school and college-going children and the rural/urban poor).



Financial Inclusion Index

On June 25, 2013, CRISIL, India's leading credit rating and Research Company launched an index to measure the status of financial inclusion in India. CRISIL Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusix is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services — branch penetration, deposit penetration, and credit penetration —into one metric. The report highlights many hitherto unknown facets of inclusion in India. It contains the first regional, state-wise, and district-wise assessments of financial inclusion ever published, and the first analysis of trends in inclusion over a three-year timeframe. Some key conclusions from the study are:

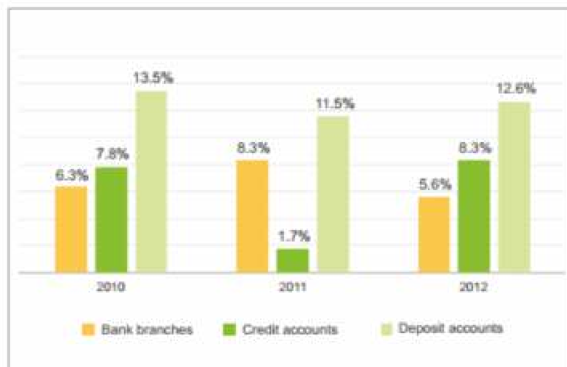
The all-India CRISIL Inclusix score of 40.1 is low, though there are clear signs of progress – this score has improved from 35.4 in 2009.

Deposit penetration is the key driver of financial inclusion – the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million). 618 out of 632 districts reported an improvement in their scores during 2009-2011. The top three states and Union Territories are Puducherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry), and Thiruvananthapuram (Kerala).

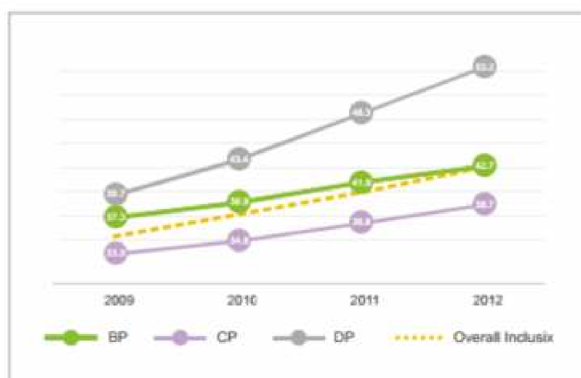
CRISIL Inclusix attempts to display the presence of financial inclusion in India based on parameters of branch penetration, deposit penetration and credit penetration.

The Growth Trends of the Banking Industry – CRISIL Report – Jan 2014

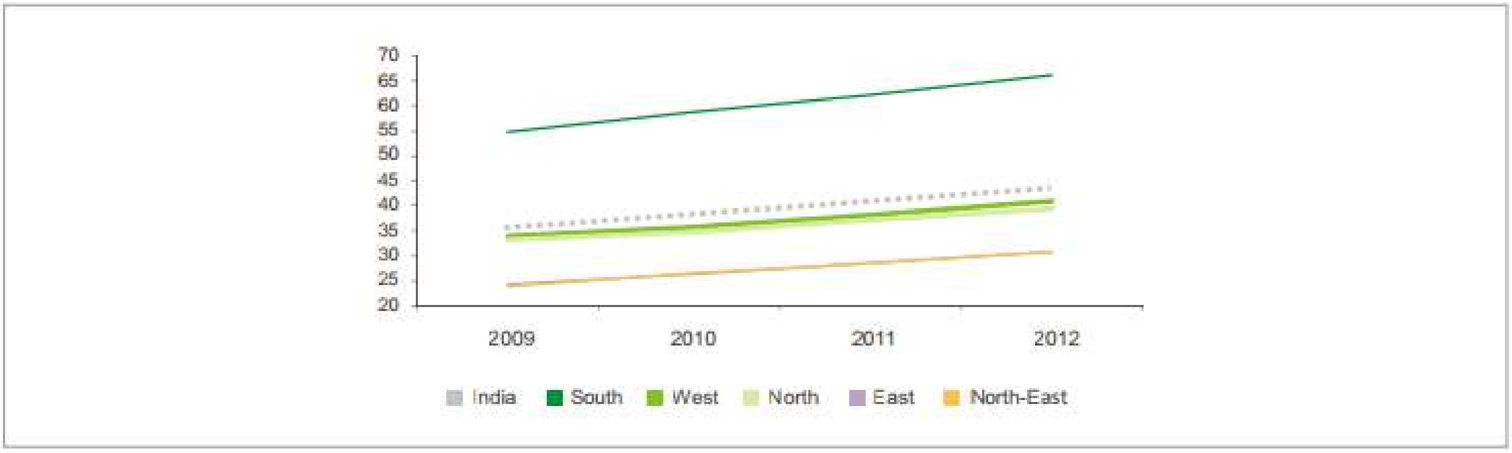
Growth trends in bank branches, number of credit accounts, and number of deposit accounts



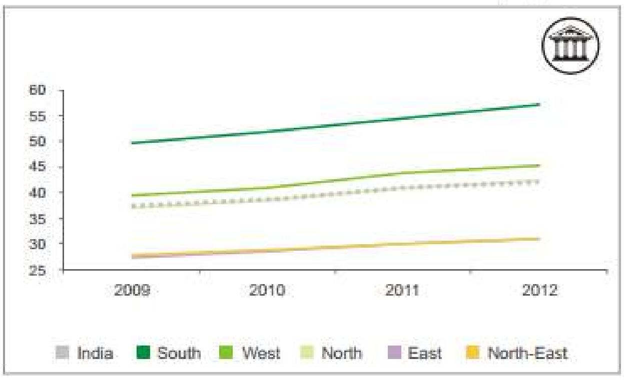
Trends in BP, CP and DP



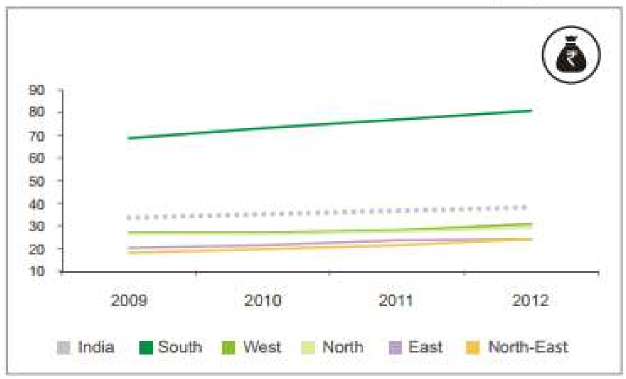
Trends in financial inclusion at regional level



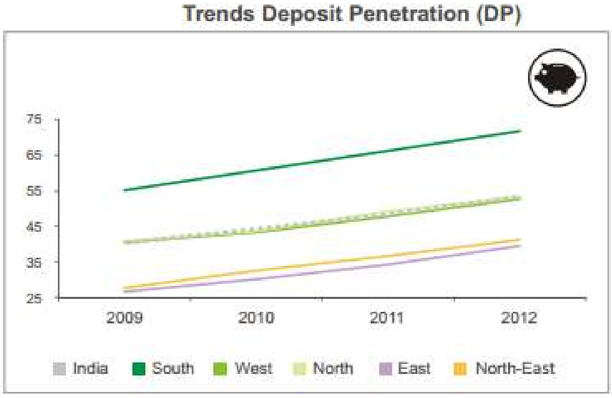
Trends in Branch Penetration (BP)

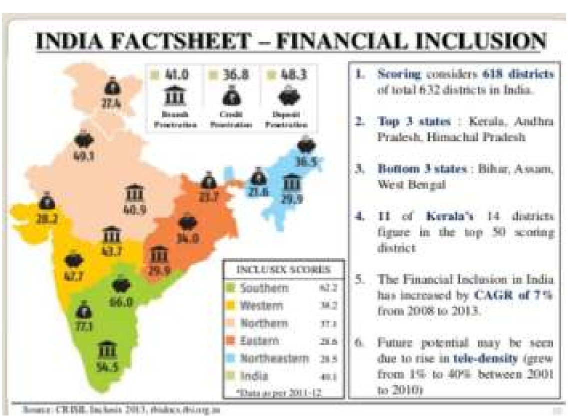


Trends in Credit Penetration (CP)

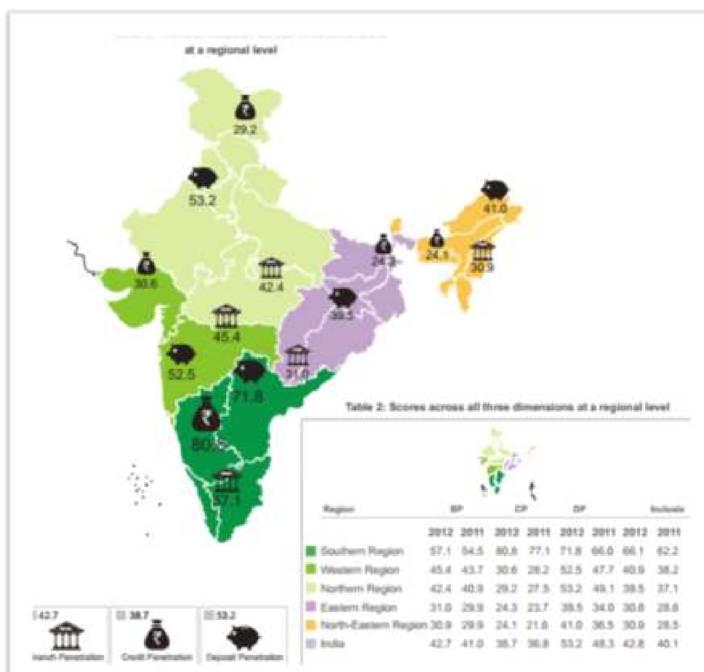


Trends Deposit Penetration (DP)

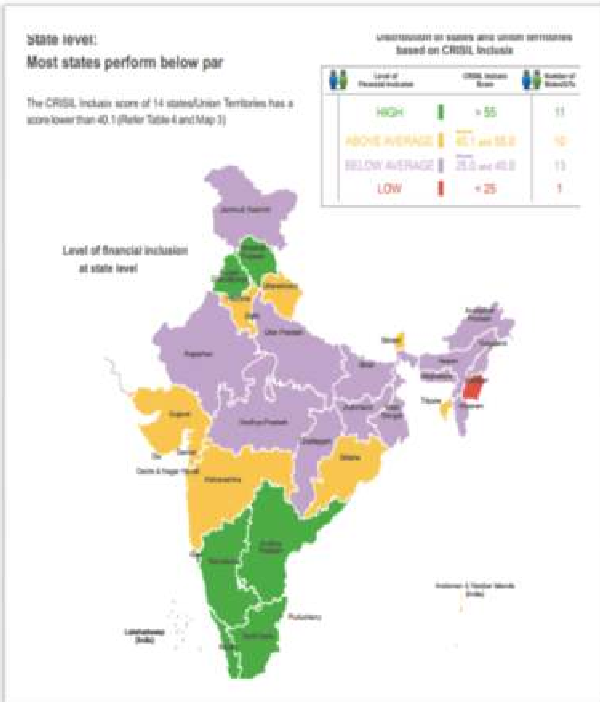




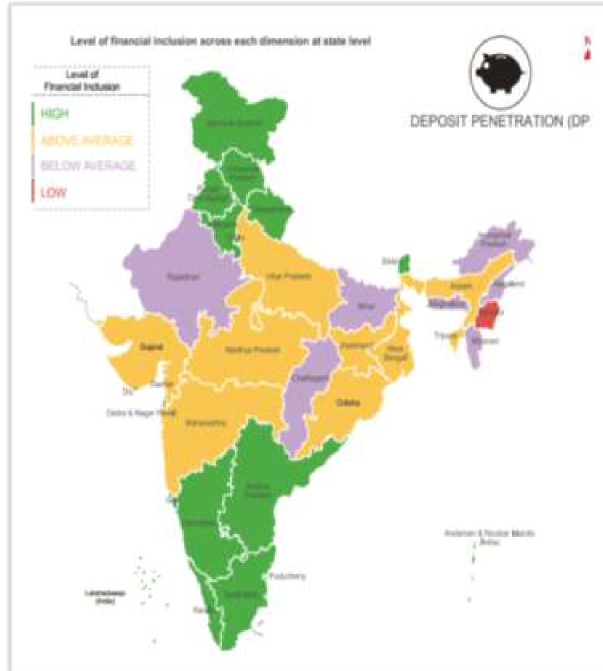
Level of Financial Inclusion across Three Dimensions at a Regional Level as per report by CRISIL INCLUSIX



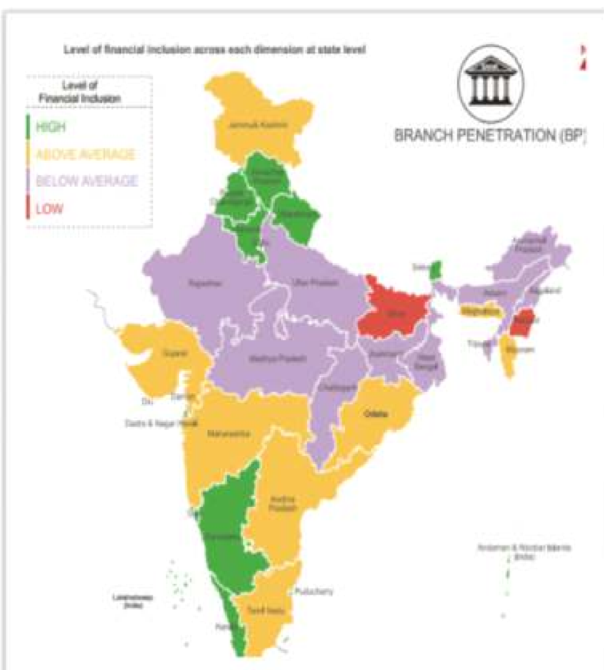
Performance of States and Union Territories as per CRISIL Inclusix



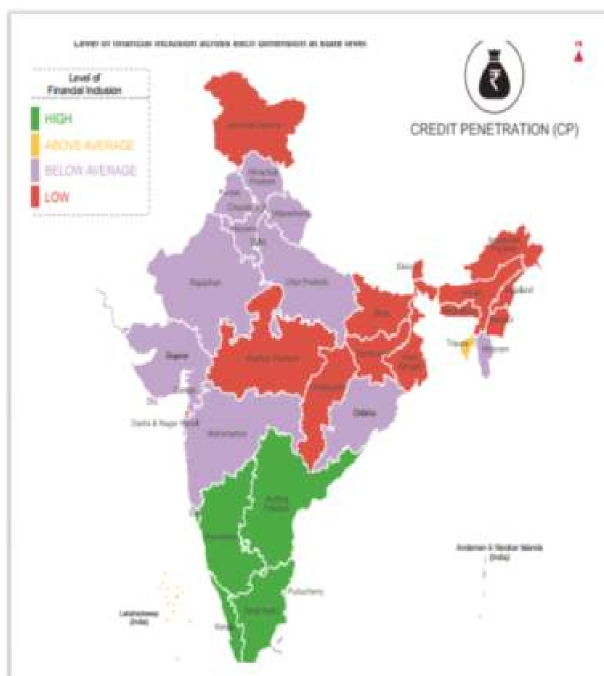
Level of Financial Inclusion across each dimension at state level with Deposit Penetration



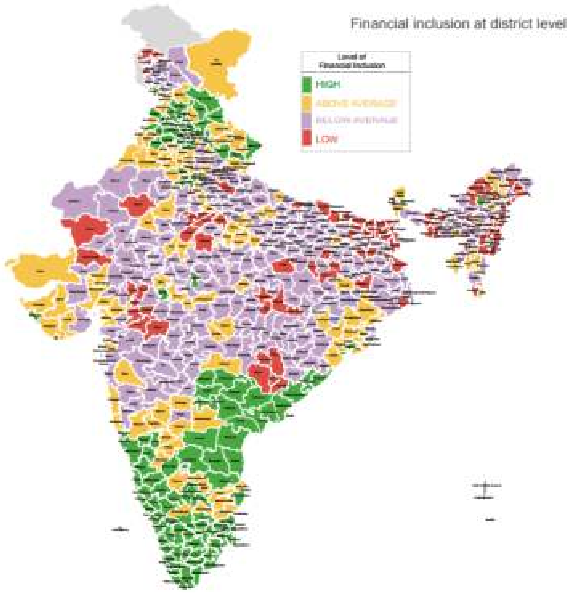
Level of Financial Inclusion across each dimension at state level with Branch Penetration



Level of Financial Inclusion across each dimension at state level with Credit Penetration



Financial inclusion at District level



Way forward

Banks' business models for financial inclusion should be designed to be at least self-supporting in the initial phase and profit-making in the long run, with an unwavering focus on affordability. The banks need to think and act differently and make themselves more flexible so as to meet even the smallest requirements of the rural population. Banks need to move from a cost centric model to a revenue generating model by offering a bouquet of deposit, credit and other products and services. The products and services should be designed in such a way that it suits the needs of people in unbanked rural areas.

i) BC Model

There are multiple challenges being faced while implementing BC model. Sustainability and scalability of the BC model is essential. There are issues around BCs' cash management services and remuneration to be paid to them. There is a need to have a close look at the problems constraining the model and to develop practical solutions that help in realizing the full potential of this channel. More and more innovative products will have to be introduced which would benefit both banks as well as the rural people and at the same time make the BC model more viable.

ii) Differentiated banking

RBI is set to create a framework for licensing small banks and payments banks. These differentiated banks would be expected to serve niche interests and to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force. This aims at allowing a wider pool of entrants into banking to further Financial Inclusion.

iii) PMJDY

The objective of Financial Inclusion as defined by us is very much in sync with the objectives sought to be achieved under the PMJDY. We are fully committed to the implementation of the scheme and are trying to ensure that the efforts of RBI converge with the work under the PMJDY so that the common objective of financial inclusion is achieved. Further, the idea is to enable more transactions in these accounts and providing more credit products, which will not only help rural people to avail of credit at comparatively lower rates of interest but, at the same time, also make the financial inclusion process viable for banks. With implementation of PMJDY, it is expected that the beneficiaries of social security will get the direct credit of their entitlements without any leakage. However, for successful achievement of the same, it is to be ensured that there is timely and accurate listing of beneficiaries

What the Stake holders have to say....

- "Financial Inclusion is one of the key priorities of our Government and the need of the hour. For our country to move from a developing to a developed nation, we need to bring financial services and education to every doorstep. We believe that through our shared agenda on financial inclusion we have much to offer. Our government has the power and capabilities to create a stable regulatory framework; we, at National Payments Corporation of India (NPCI), are keen to support financial inclusion by reaching out to low-income and poor people with the powerful financial products and services."

- Financial inclusion is a key enabler of economic and social development. No frill account failed as the reach was not at par and only opening of accounts does not make sense. Branch licensing was other tool of Financial Inclusion but it also was not effective as required. There were various measures initiated by government and RBI but the effectiveness of the financial inclusion agenda in India can be significantly enhanced if there are objective ways to measure it. The index- CRISIL Inclusix is the tool which will help policy-makers, regulators, and financial sector intermediaries at large in measuring the progress of financial inclusion, both at a broader and disaggregated level.

- MFIs play an indirect role in Financial Inclusion. Initially, only a handful of MFIs were into financial intermediation using a variety of delivery methods. Today, their numbers have increased considerably. While there is no published data on private MFIs operating in the country. A large majority of them operate on much smaller scales, with a client base of 500–1,500 per MFI. However, a few big MFIs (non-banking finance companies) have an outreach of over 100,000 clients. Finally, a very positive impact of promoting financial inclusion will be to boost grass-roots innovations and entrepreneurship to promote micro-venture capital funds and thus reward and mobilize creativity from segments of our society that remain completely untapped.

- Financial inclusion is not only simply opening accounts, but an important part of the mainstream thinking on economic development. The state needs to put its resources to ensure that the infrastructure backbone is available — which means that there is ubiquitous presence of interoperable point of sale devices that allow people to transact without a hefty fee, once this architecture is available and vialbe, the poor will start transacting.

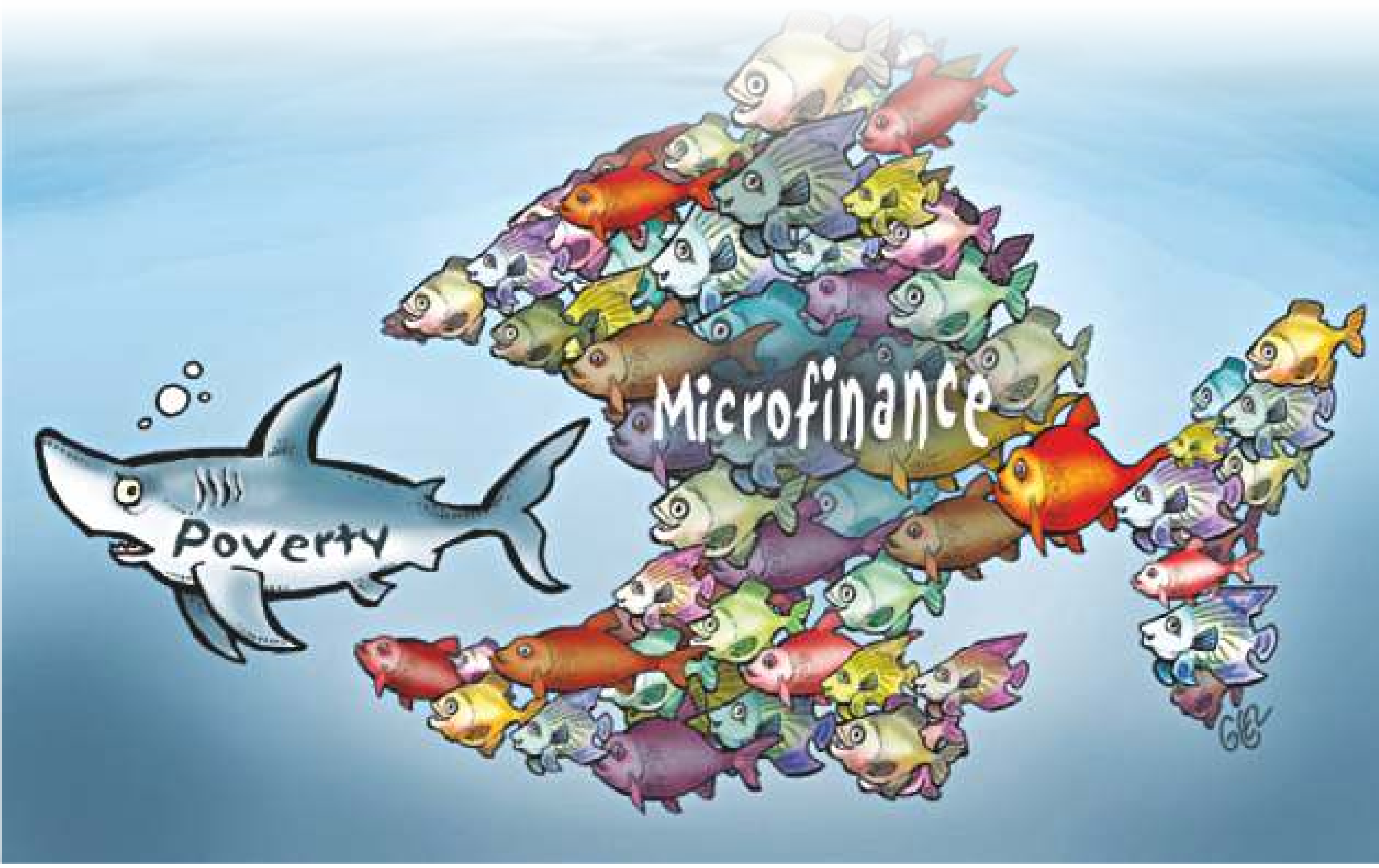
- Financial inclusion holds special significance for India, as majority of the Indian population resides in rural areas. It will allow poor households to save and manage their money in a secure manner, decreases their exposure to economic shocks in the form of drought, floods or any calamity of the kind which affects people dependant on agricultural activities. The strategies adopted to reach banking activities and its benefits to the unbanked areas; it is a drive to bring the underprivileged people into the mainstream. It also includes generating financial awareness, knowledge about banks and banking channels, facilities provided by banks and the advantages of treading the banking route. Besides, it also entails the task of educating people and making them financially literate.

- Jan-Dhan is a worthwhile effort, but it's too early to say whether it will succeed. As compared to its predecessor — the Swabhiman scheme — this program has a high possibility of success due to major strategic improvements, i.e , it mandates provision of ATM-cum-debit cards to each account holder instead of the Smartcard [for thumbprint authentication] as earlier, where the customer was solely dependent upon agents or business correspondents. ATM debit cards give 24*7 access to savings, which is critical for the below-the-poverty-line population. The quantum of savings is limited and probability of emergency requirements is high.

- Financial exclusion must be a holistic package, merely enabling somebody to open an account or giving little bit of access to loans and credit is not really going to solve the problem. the spurt, which was given by various steps focused entirely on the banking sector like nationalization of bank, creating no-frills accounts, facilitating or easing the norms of know your customers so people can have access to banking. But these initiatives are not as useful as one expecting them to be, because the eco-system, which is necessary for a person to take advantage of the financial inclusion, is not there. That requires social infrastructure, access to health, education, water, roads, and establishment of industries. These are the other side of the coin, which must go together. Inclusiveness cannot be in isolation as it is a part of inclusive growth.

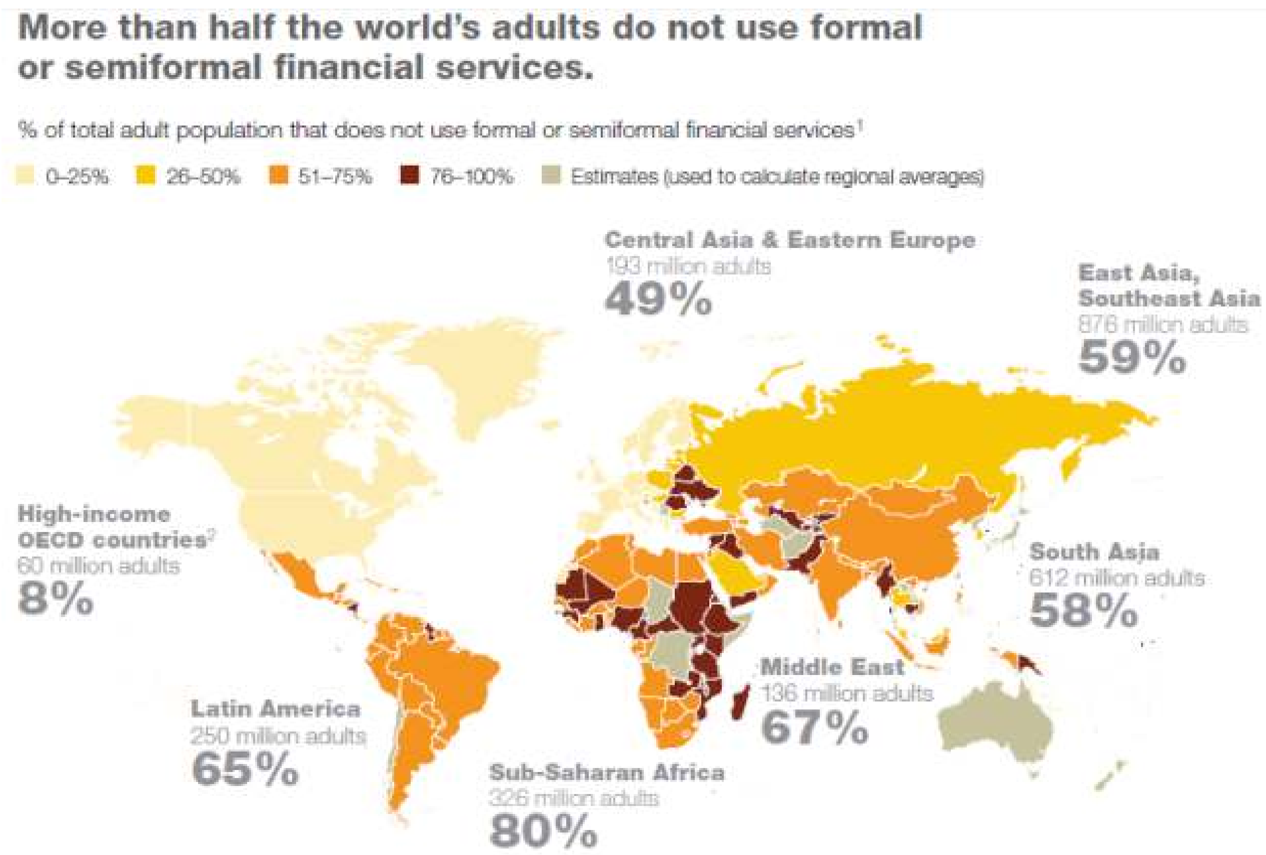
- Financial inclusion is a potentially viable business proposition because of the huge untapped market that it seeks to bring into the fold of banking services. Financial inclusion, prima facie, needs to be viewed as "money at the bottom of the pyramid" and business models should be so designed to be at least self-supporting in the initial phase and profit-making in the long run. It is important to keep in mind that service provided should be at an affordable cost. It is also pertinent to note that providing subsidy does not necessarily lead to a better delivery mechanism.

- The fact that RBI and the government of India are taking efforts to curb the financial exclusion is completely true but the problem lies deep in the education system which is very weak leading to high percentage of school drop outs further leading to poverty. This snowballing effect has hampered all the efforts for financial inclusion leading to lack of use of bank accounts as there are is no scope for income generation/ regularities due to illiteracy resulting to breakdown of this effective business model in case of RBI or subsidy scheme in case of government to be just impressive on paper.



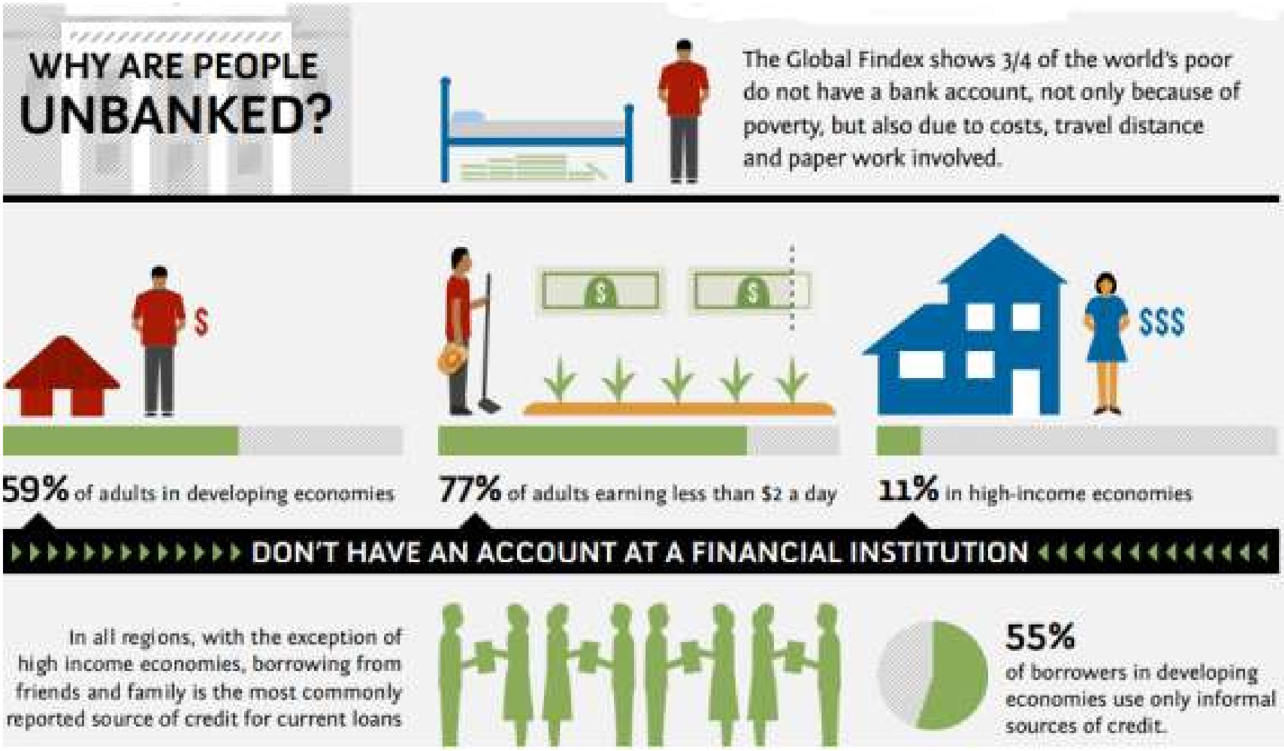
Financial inclusion in International Scenario

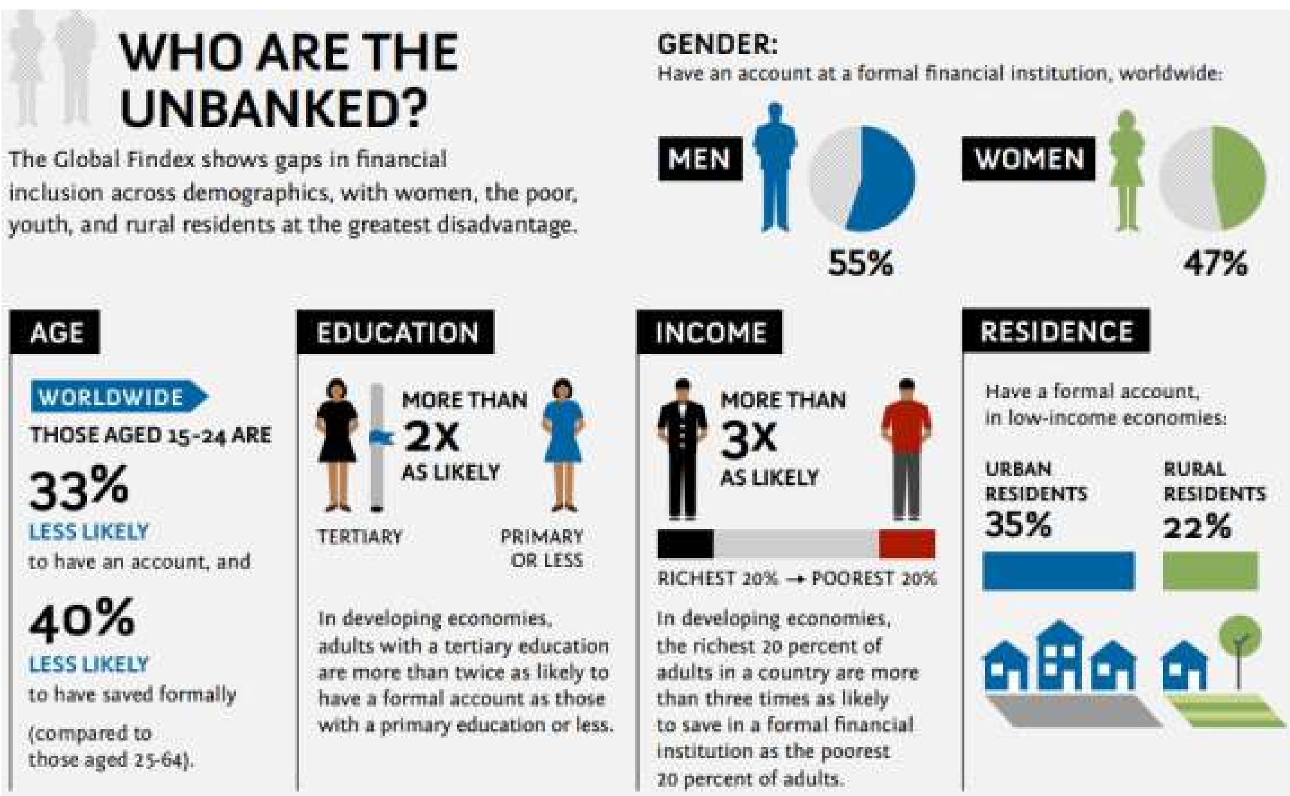
Financial inclusion has become one of the most significant aspects in the present era of inclusive growth and development all over the world. All over the World the importance of an inclusive financial system is widely recognized in policy circles and has become a policy priority in many countries. Globally many countries now look at financial inclusion as the way to more inclusive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation's progress. Financial regulators, governments and the banking industry have taken several initiatives for financial inclusion all over the world.



[1]Those not using at least one of credit or savings from formal financial institutions such as fully regulated banks or semiformal financial institutions such as partially regulated or unregulated microfinance institutions.
[2]Members of the Organisation for Economic Co-operation and Development.

Source: McKinsey research conducted in partnership with the Financial Access Initiative (a consortium of researchers at New York University, Harvard, Yale, and Innovations for Poverty Action); we relied on financial usage data from Patrick Honohan, "Cross-country variation in household access to financial services," *Journal of Banking & Finance*, Volume 32, Number 11, 2008, pp. 2493–500


WHY ARE PEOPLE UNBANKED?
The Global Findex shows 3/4 of the world's poor do not have a bank account, not only because of poverty, but also due to costs, travel distance and paper work involved.
$
$$$
59% of adults in developing economies
77% of adults earning less than $2 a day
11% in high-income economies
DON'T HAVE AN ACCOUNT AT A FINANCIAL INSTITUTION
In all regions, with the exception of high income economies, borrowing from friends and family is the most commonly reported source of credit for current loans
55%
of borrowers in developing economies use only informal sources of credit.


WHO ARE THE UNBANKED?
The Global Findex shows gaps in financial inclusion across demographics, with women, the poor, youth, and rural residents at the greatest disadvantage.
GENDER:
Have an account at a formal financial institution, worldwide:
MEN
55%
WOMEN
47%
AGE
WORLDWIDE
THOSE AGED 15-24 ARE
33%
LESS LIKELY
to have an account, and
40%
LESS LIKELY
to have saved formally
(compared to those aged 25-64).
EDUCATION
MORE THAN
2X
AS LIKELY
TERTIARY
PRIMARY OR LESS
In developing economies, adults with a tertiary education are more than twice as likely to have a formal account as those with a primary education or less.
INCOME
MORE THAN
3X
AS LIKELY
RICHEST 20% → POOREST 20%
In developing economies, the richest 20 percent of adults in a country are more than three times as likely to save in a formal financial institution as the poorest 20 percent of adults.
RESIDENCE
Have a formal account, in low-income economies:
URBAN RESIDENTS
35%
RURAL RESIDENTS
22%

The banking sector has taken a lead role in promoting financial Legislative measures have been initiated in some countries. For eg:

- In the US, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhoods.
- In France, the law on exclusion (1998) emphasizes an individual's right to have bank account.
- The German Bankers Association introduced voluntary code in 1996 providing for a so-called "everyman" current banking account that facilitates basic banking transactions.
- In the UK, a financial Inclusion Task Force was constituted by the government in 2005 in order to monitor the development of the process.
- In south Africa, a low cost bank account called Mzansi was launched for financially excluded people in 2004 by south African banking association.
- Several Asian & African countries have harnessed the unique strength of mobile banking to drive the financial inclusion
-

The Alliance for Financial Inclusion

The Alliance for Financial Inclusion (AFI) is the world's largest and most prominent network of financial inclusion policymakers from developing and emerging economies who work together to increase access to appropriate financial services for the poor. AFI's core mission is to adopt and expand effective inclusive financial policies in developing nations in an effort to lift 2.5 billion impoverished, unbanked citizens out of poverty. AFI was founded in 2008 as a Bill & Melinda Gates Foundation-funded project, supported by AusAid, in order to advance the development of smart financial inclusion policy in developing and emerging countries. The AFI Network has grown to more than 105 institutions from 88 member nations from 2008 to 2013. AFI hosts its landmark, annual Global Policy Forum (GPF) as the keystone event for its membership. During the 2011 GPF, the network adopted the Maya Declaration, a set of common principles and goals for financial inclusion policy development. AFI uses a "poly lateral development" model to contrast and compare successful financial inclusion policies, focusing on a peer-to-peer system rather than a top-down or North-to-South learning model.

MIX's work in the area of Financial Inclusion

MIX Market is the premier source of public information on microfinance institutions (MFIs) and their financial and social performance. MIX offers a suite of popular analysis reports at the global, regional, and country levels, including global analyses of key issues for the sector. MIX has been working over the past two years with policy makers, financial services providers, donors, and other key stakeholders in a series of countries to gather otherwise isolated datasets that, together, can provide them with the information they need for effective financial inclusion decision making. To date MIX, through its FINclusionLab, has created 15 financial inclusion maps in 13 countries in Africa, South Asia, and Latin America and plans to add an additional 7 countries and 5 Indian states to its platform during 2014. These resources are developed in close collaboration with local stakeholders to ensure their relevance in supporting the development and monitoring of financial inclusion strategies both at the policy and operational levels. The MIX's move to visualize geo-spatial sub-national supply-side data through publicly available geo-spatial maps will enrich the supply-side data landscape. This will be a challenging undertaking as frequent data collection can be expensive and/or ad hoc depending on when data may become available.

South Africa: Mzansi Account

In early 2000s South Africa's financial institutions faced pres¬sure because of lack of access to financial services. South Africa had introduced Mzansi Account in the year 2002 which is a National Bank Account Product (NBA) .It is basically product which is card based and provides limited services to customers at a very attractive price. Access to this account is provided through Bank branches and existing service points such as ATMs, Selected self devices and post offices. All the banks are participants of this drive and has also achieved at¬tractive preposition.

Brazil: Business Correspondents

Brazil has implemented Branchless Banking model to achieve financial inclusion even though BCs had existed in Brazil since the 1970s, the real boost came a little more than a decade ago when the regulation broadened the range of services that can be offered by BCs and eased several other restrictions. This model has grown rapidly as world's largest such network having 1, 50,000 BCs account for about 62 per¬cent of the total number of points of service in the financial system.

Kenya: M-Pesa, — Kesho

To achieve financial inclusion, in Kenya Mobile technology has been tapped. In 2007 Safaricom-Vodafone launched M-PESA with a motive to create parallel banking system which has got very good response. Further it also ventured in providing de¬posit facility by collaborating with equity bank. M-Kesho was also launched by Vodafone which facilitates M-Pesa custom¬er's micro savings, micro credits and micro insurance. It can also be accessed from a customer's mobile phone.

Mexico: Micro Finance Institutions, Mobile banking

Since Financial Inclusion is availability of financial services to all in an economy Mexico has identified and adopted MFI driven model which is considered as the most effective model throughout the world.

Canada-Debit card

A pilot project of issuing debit cards to some clients without bank accounts has proved to be such a success that the Can¬ada will make this option permanent. It will be the first pro¬gram of its type in Canada. The debit cards work like a regular bank card - the monthly income support payment is credited to the card and can be withdrawn as needed. The card can also be used at stores for direct payment.

Dubai-Prepaid cards & credit cards

Dubai has taken lead amongst developed countries to im¬plement unique system .In order to have financial inclusive system, prosperous and developed country like Dubai has also taken certain initiative. Dubai e-government and National Bank of Abu Dhabi have launched Prepaid Card which offers a convenient, flexible and a safe alternative to do transactions without the necessity of opening a bank account. It is backed by visa international. Recharge facility for prepaid card is available at any National Bank of Abu Dhabi branch without a bank account, any security deposit, income requirements, and monthly repayments. They have also launched Credit Cards in Classis, Gold and Corporate card which gives add on benefits like discount at over 1,700 outlets in UAE, Visa Application services, free road side assistance, purchase as-sistance and also services.

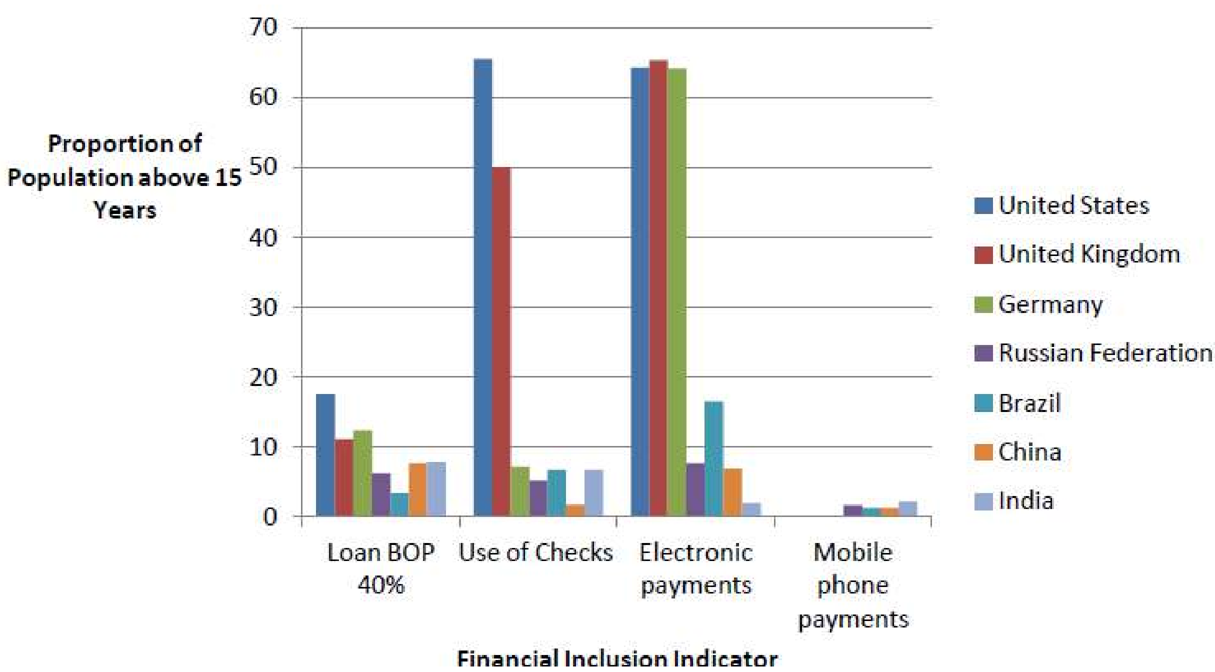
California: Pay Card

California is one of the states where highest amount of im¬migrants take shelter. To have inclusive system which takes care of immigrants also California has launched a pay card which provides financial services to people without bank ac¬counts. It has mainly focused immigrants as main customers who regularly send money transfers to relatives in other coun¬tries. The pay card gives cost saving benefit by eliminating payment for check cashing and money transfers.

Financial Inclusion: A cross country comparison across the World

As per one of the study, the cross country comparison of access to financial services was done along with the proportion of population in United States, United Kingdom, Germany, Russian Federation, Brazil, China and India. In the various credit parameters, US tops, followed by UK and Russia. India is on par with China and in Credit to bottom 40% Brazil ranks very low. In health and agricultural insurance India's population covered is very less but still on par with other developing countries like Brazil and China. In modes of making payments again US tops (65%) with UK (50%) following it and the wide gap between the UK and Germany which has only 7.2% people using cheques. India's has 6.7% of population using cheques for making payments. Electronic payments are quite popular in US, UK, Germany and Brazil. In India only 2% of population makes use of Electronic medium for making payments. Coming to mobile banking India has relatively done well i.e.2.2%, while for other countries it is much less and for three developed countries data is not available. Coming to savings in financial institutions India's population is 11.6% while for China it is 32%.

Financial Inclusion: Cross Country Comparisons as shown below:



Source: http://rbi.org.in/scripts/BS_SpeechesView.aspx?id=749

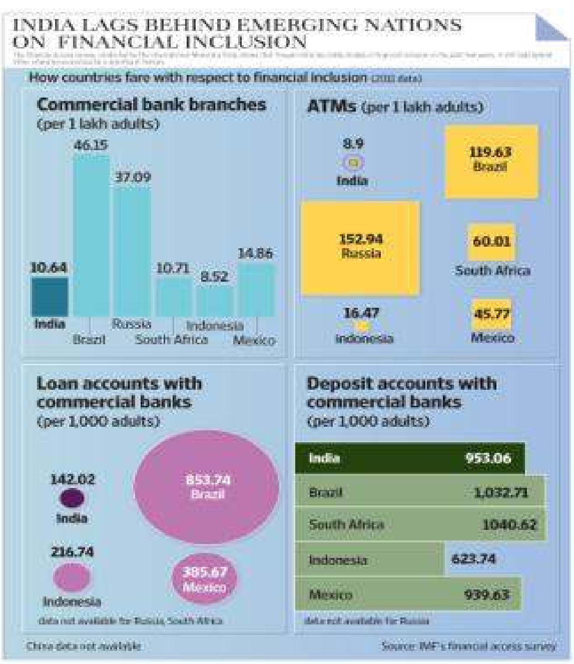
The diagram clearly shows that US ranks top in loan to bottom 40% of the population, followed by Germany, UK, Russian Federation, China and India. Brazil is at the bottom. China and India are almost at par. In the use of cheks again US tops the list with UK lagging behind by more than 10 points. Germany, Russian Federation and India are almost at par but the gap between UK and the three following countries is very wide and China is at the bottom.

World Bank 'Financial Access Survey' Results

As per the report by World Bank it has been observed that in our country, financial exclusion measured in terms of bank branch density, ATM density, and bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world.

S.No	Country	Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
		Per 1000 KM		Per 0.1 Million		as % to GDP	
1	**India**	**30.43**	**25.43**	**10.64**	**8.9**	**68.43**	**51.75**
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07	...	18.8	...	80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
8	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
9	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
10	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
11	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
12	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
13	UK	52.87	260.97	24.87	122.77	406.54	445.86
14	USA	9.58	...	35.43	...	57.78	46.83
15	Swtzerland	84.53	166.48	50.97	100.39	151.82	173.26
16	France	40.22	106.22	41.58	109.8	34.77	42.85

Source: Financial Access Survey, IMF; Figures in respect of UK are as on 2010



The comparative analysis between the other countries and India why is India lacking behind in financial inclusion

WORLD	INDIA
Socially Well developed – General Literacy levels- Comparatively better	Developing Society– General Literacy Level- Low
Per capita income is higher, Population below Poverty line is less	Per capita income is lower, Population below Poverty line is high
Financial Network already in place	Low banking penetration- Many habitations unbanked
Financial Inclusion is more about knowledge of fair and transparent financial products	Access to formal financial services -Basic financial products. More focus required on Financial Literacy
Financial Literacy objective- Informed decision making- Consumer protection	Financial Literacy objective- Financial planning- Awareness of basic banking products

Key Challenges

- Believing in Financial Inclusion as a Viable Business there is still a widespread belief that if the poor have to be provided financial services, it must be done in a subsidized manner or as an act of charity. And this belief has kept the poor bereft of these services while keeping the regime of rationing, queuing and patronage alive. Contrary to common perception, financial inclusion is a potentially viable business proposition because of the huge untapped market that it seeks to bring into the fold of banking services. Financial Inclusion, prima facie, needs to be viewed as "money at the bottom of the pyramid" and in order to tap this opportunity, banks would need to have in place an appropriate business and delivery model in line with their business strategy and comparative advantage. If the banks start believing in this business, they would be able to innovate and, in the process, start reaping the benefits of economies of scale. This will ultimately create an environment of competitiveness amongst banks which will benefit the unbanked population.
- Correct Identification of Target Beneficiaries: Correct Identification of targeted beneficiaries is expected to prove to be a major challenge. Identification of Target Beneficiaries is a major challenge that needs to be tackled for the successful implementation of the financial inclusion. The concern is that the policy framework doesn't lay down clear guidelines about identification of target segment of beneficiaries as still most important concern about the wrongful inclusion and exclusion of beneficiaries would still persist due to technical snags.
- Monitoring performance: Along with the implementation efforts, the monitoring of the performance to access the impact is also very crucial. The impact assessment helps in initiating policies and removing barriers to Financial Inclusion. We have encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs). A structured and comprehensive monitoring mechanism for evaluating banks' performance vis-à-vis their targets has also been put in place.

- Believing in Financial Inclusion as a viable business: There is still a widespread belief that if the poor have to be provided financial services, it must be done in a subsidized manner or as an act of charity. And this belief has kept the poor bereft of these services while keeping the regime of rationing, queuing and patronage alive. Contrary to common perception, financial inclusion is a potentially viable business proposition because of the huge untapped market that it seeks to bring into the fold of banking services. Financial Inclusion, prima facie, needs to be viewed as "money at the bottom of the pyramid" and in order to tap this opportunity, banks would need to have in place an appropriate business and delivery model in line with their business strategy and comparative advantage. If the banks start believing in this business, they would be able to innovate and, in the process, start reaping the benefits of economies of scale. This will ultimately create an environment of competitiveness amongst banks which will benefit the unbanked population.
- Telecom Connectivity: There is also an issue with respect to net connectivity in rural areas. Poor net connectivity in these areas necessitates the UID systems to run offline.
- Ensuring effective Delivery of Subsidies through DCT: Strengthening the infrastructure would involve huge costs to the banks. This should not result in bank customers having to bear the burden or stakeholders being penalised. It would, therefore, be necessary for the government/RBI to think in terms of 'Incentivisation Schemes' which will make it attractive for the banks to venture into the rural hinterland on their own volition and make it a win-win proposition.
- Documentation and Logistics Challenges faced by respondents: opening of accounts and organising the logistics is another challenge as some of the respondents do not have even the basic ID Proofs, proper residential proof that were required and hence dropped out and even sometimes there are no good transport facilities for the respondent to reach.
- Creation of Awareness: awareness should be created in order to have a live account I,e through attracting them about the benefits of schemes like MNERGA, DBT etc will be benefited to them.

Through PMJDY over draft of Rs 5000 to be provided into their account.

- Monitoring performance: Along with the implementation efforts, the monitoring of the performance to access the impact is also very crucial. The impact assessment helps in initiating policies and removing barriers to Financial Inclusion. We have encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs). A structured and comprehensive monitoring mechanism for evaluating banks' performance vis-à-vis their targets has also been put in place.
- Leveraging the banking network for extending social benefits: Direct Benefit Transfer: The introduction of direct benefit transfer by validating the identity of the beneficiary through Aadhaar will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans of routing all social security payments through the banking network using the Aadhaar based platform as a unique financial address for transferring financial benefits to the accounts of beneficiaries. Besides providing timely delivery of benefits at the door step of beneficiaries, it would save Government the administrative cost involved in delivering cash to the intended beneficiaries and help minimize the chances of leakages in the system. Banks must initiate steps to proactively open bank accounts for all eligible individuals and seed these accounts with Aadhaar numbers for ensuring smooth flow of the social security benefits through the banking channel.
- Pradhan Mantri Jan Dhan Yojana (PMJDY): Pradhan Mantri Jan Dhan Yojana has been announced recently to give a further push to Financial Inclusion initiatives in India. The scheme has been launched with the objectives of providing universal access to banking facilities, providing basic banking accounts with overdraft facility and RuPay Debit card to all households, conducting financial literacy programs, creation of credit guarantee fund, micro-insurance and unorganized sector pension schemes. The objectives are expected to be achieved in two phases over a period of four years up to August 2018. Under the scheme, technological innovations like RuPay card and mobile banking are also being made use of. Banks are also permitted to avail of RBI's scheme for subsidy on rural ATMs and UIDAI's scheme for subsidy on micro ATMs to augment their resources at the village level.

Other Important Challenges

- Transparency in governance is essential for efficient implementation. There is a need for simple regulatory system for expeditious approvals. Simplification of regulatory system will ensure faster implementation of the cash transfer scheme.
- There are concerns of duplicate accounts from people who may have opened them earlier as anybody in India can open multiple accounts, so there should be a different rule for the currently unbanked.
- Political will and good governance, which include strict enforcement, are most essential since; it is not only politically and economically sensitive policy and in the future it will touches upon the most essential commodities so it must be completely de-linked with political motivations which are highly unlikely.
- FI must be implemented efficiently to reduce poverty in India, it should provide an opportunity the poor to not only use and save money to also to invest.
- The audit of all these programmes should be made mandatory in order to improve the utility. This can be avoided through efficient implementation and transparent governance.
- Continuing to reduce the number of unbanked people by promoting basic bank accounts.
- Ensuring that newly banked people are using their bank accounts effectively
- Continuing to focus on the issue of accessibility of banking services
- Engaging BCs- Associated risks - Lack of professionalism of Bcs
- Less transactions-Non-operational accounts- Low volume small value transactions- High Cost - Viability issues- In adequate remuneration- BC attrition-Nonpayment of commission
- Understanding the impact of developments in the banking market on the government objectives for effective money management
- Increasing the coverage and capacity of third sector lenders so that excluded people nationwide have access to this source of affordable credit

- Making saving work for low income or financially excluded consumers through products that meet their savings needs and through targeted savings incentives
- Investigating the role of insurance as a product for financially excluded customers;
- Successfully increasing demand for financial services through targeted support increased financial capability and realizing the potential of bank accounts as a route to wider financial inclusion. And the challenges to dealing with financial distress effectively include
- Continuing to make progress with the supply of face to face advice and destablishing the potential of new cost effective, mechanisms for delivery of advice
- Replicating the success of DTI's pilots to date in the nationwide rollout of projects to tackle illegal lending
- Promoting the role of banks and other financial services providers in supporting people out of financial distress.
- Addressing the impact of low financial capability on people's capability to deal with distress.
- Scaling Financial inclusion- Appropriate Business Model yet to evolve need to move from cost centric model to a revenue generation Model by offering a bouquet of deposit, credit and other services

Challenges in the way of Financial Inclusion

- The major barriers for financial inclusion, apart from socioeconomic factors such as lack of regular income, poverty, illiteracy, etc.,.
- Lack of reach, higher cost of transactions and time taken in providing those services.
- In a vast country like India viable models for remote areas are difficult to design.
- Appropriate Business Model to suit urban poor and rural people.
- Efficient Delivery Mechanism need to be identified.
- Financial Literacy and financial education need to be taken up on large scale.
- Lack of ownership by banks in implementation of Financial Inclusion.
- Lack of co-ordination among different entities
- Information and Communications Technology (ICT) based BC Model - Yet to stabilize.
- Infrastructure Problems - Premises, Roads, Power, etc.
- Fewer transactions - Non-operational accounts - High volume small value transactions - High Cost - Viability issues.
- Technology issues- availability of handheld devices, cards, technology partners, operational glitches, Digital connectivity, Turnaround time.

Conclusion

Albeit, if there has been opening of accounts on behalf of the PJDMY or the earlier schemes the practical effect still needs to be discoverable and measurable. The measurement can only be done by understanding a comparative analysis of the beneficiary in terms of micro credit, micro insurance and micro savings which are the basic services of financial inclusion at least with a gap of 3 years to understand the impact. Presently, though such schemes were installed for a long time there was no encouragement to the unreached to avail these services of financial inclusion. Hence, it is extremely important that challenges flagged above need clarification before the policy moves to the next phase as there is an urgent need to give a fresh look to enhance macroeconomic framework. Economy will grow faster and will be more stable if it helps in improving the quality of life of the people of the country and also ensure an orderly growth. This can be only possible if policies are put in places which are socially desirable, technologically viable, economically feasible, environment friendly and politically expedient since benefits are directly delivered to the poor.

To sum up, financial inclusion in India could prove to be a game changer in transforming it into a global player. An inclusive growth can act as a source of empowerment only when people are allowed to participate more effectively in the economic and social process. In order to reach the global aspirations, banks have to meet the bridge of local aspirations. Access to financial inclusion will not only result in increasing employment and business opportunities but also attract global market players to our country. As it is know that, technology is a great enabler, so the services should act as a ladder to achieve the ultimate goal of providing financial services to the financially excluded, through a human touch. Therefore, Banks should take an extra caution to ensure that poor are not driven away from banking because the technology interface is unfriendly. Instead sufficient provisions should be in built in the business model i.e though BCs, front office staff etc, Financial Literacy and awareness to take care of customer grievances. In this task, it is necessary that a concerted and structured effort should be put by all the stakeholders, like- Banks, Governments, Civil Societies, and NGOs etc. to reach the objective of Financial Inclusion

Thus, if inclusiveness and sustainability are to be achieved both the growth and the redistribution process will need to be complementary to each other. One cannot adequately address these fundamental issues without expanding the boundaries of the current thinking underlying macroeconomic policymaking and having the courage to depart radically from what has hitherto been undertaken. Therefore, the Policy of financial inclusion is the road which India needs to travel towards transforming India into a globalized market economy, if the key actions and challenges outlined in this paper are adequately taken care of.

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Akcnowledgement

This knowledge paper has been developed in context to the event on Make in India series having Micro finance: A Game Changer for Financial Inclusion as one of the themes. We thank the research team Dr Yadnya Pitale for coming out with this research based knowledge paper.

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