Inclusive Banking through Financial Inclusion - An Overview

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Abstract

Banking is the life line of the nation and its people. In today's economy banking sector needs to stand out in crowded &highly competitive markets. The pace of business is relentless, where Today's innovation becomes Tomorrow's status quo. Organizations that embrace technology can transform to gain a significant advantage rapidly over the competition. Banks have an unprecedented opportunity to deliver new levels of customers' engagements through innovative consumer style applications. Effective implementation of technology will help the banks in facing the competition successfully and furthering their achievements in the area of financial inclusion as well.

Among the series of experiments undertaken, for the sake of rural development and thereby an effort to uplift the down trodden strata of the society right from the independence and more particularly after the nationalization of Commercial banks in July 1969, the recent one is, the Financial inclusion. Financial inclusion is said to be a crucial factor for the inclusive growth in the most interior rural areas. The whole approach seems to be a bit different from the earlier approaches adopted and implemented to achieve the desired results. This can be explained in terms of comprehensive approach which focuses on financial services, financial savings and social security by providing pension funds and insurance products etc. Financial services are meant to provide required financial assistance from institutional arrangements for sustainable projects and regular income to the poor while financial savings are to be generated by the people through developing the savings habits. The primary focus remains unchanged and matches well with the earlier approaches adopted for upliftment of the poor and down trodden. However there is a need to have a relook at some of the facts about rural credit. So the inclusive banking through financial inclusion is the key input for the future in rural sector.

Inclusive Banking

Inclusive banking refers to delivery of financial services reasonably at a lower cost to the disadvantaged and low income groups who do not have access to the formal financial system. Their inclusion through the banking system is the new model of inclusive banking. At present major villages in India are witnessing a revolution in inclusive banking. In the near future every village will be connected with banking facilities. Villages will also have the facility of inter-bank transfers under kiosk or correspondence banking system. This will be coupled with Aadhaar enabled services which will bring a massive change in the way services and banking works in rural India.

Financial Inclusion

Financial Inclusion should be regarded as one of the most important aspect of the much desired Inclusive Growth. It is inclusive only when it creates economic opportunities along with ensuring equal opportunities to all. Hence, financial Inclusion is considered to be critical for accomplishment of Inclusive Growth.

Objectives of Financial Inclusion

- Extending formal banking system among the less privileged in urban & rural India.
- Weaning them away from unorganized money markets and moneylenders.
- Equipping them with the confidence to make informed financial decisions.
- The important objective of financial inclusion is to extend the scope of activities of the organized financial system (banks and RRB's etc) to include, within its ambit, people with low incomes. Bank has already formulated a Policy for technology based Financial Inclusion through use of Biometric smart cards to bring the target groups under Financial Inclusion.

Industry Initiatives towards Financial Inclusion

- Introduction of Basic Saving Bank Deposit Account (BSBDA) and Small accounts
- Introduction of Business Correspondent (BC) Model for service delivery in remote areas
- Adoption of Information & Communication Technology (ICT) based model for enhancing outreach.
- Integration of Electronic Benefit Transfer (EBT) for disbursement of Govt. Grants
- Extending of Direct Benefit Transfers to Aadhaar linked savings accounts

Need f or Financial Inclusion

Over 70% of people in India still live in villages. These people living in rural areas remain excluded from the purview of economic development as they do not have easy access to the Banking and Financial Services and related facilities. As of now it is estimated that 60% of the Indian population does not have access to formal banking facility. It is essential to achieve 100% financial inclusion for sustaining equitable growth. So the Process of financial Inclusion is an attempt to bring into the ambit of the organized financial system the weaker and vulnerable sections of the society.

Reserve Bank's Initiatives

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.

In order to give fillip to Financial Inclusion, RBI vide its letter dated 07.01.2010 has advised all the banks as under :

i. To prepare road map by March 2010 to provide banking services through banking outlet in every village having population of over 2000 by March 2011,through a brick and mortar branch or through any of the various ICT based models including BCs in the Financial Inclusion and future plan to extend it to all the villages in the country. Business Correspondent models should be effectively utilized to reach out to the villages and Financial Inclusion Plan should specifically outline a strategy employing BCs.

ii. No-frill account should have an in-built limited overdraft facility.

iii. Beneficiaries should be provided with GCC/KCC. Each household must have either KCC or GCC.

iv. Extension of non-banking financial facilities like remittances, insurance and other services, products should be specified in the FIP.

By considering these the central 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 Pondicherry, 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 in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

In spite of these road blocks, in India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits .Some of these are :

Opening of no-frills accounts **:** Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Relaxation on know-your-customer (KYC) norms **:** KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

RTGS

It is a Real Time Gross Settlement. RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a "real time" and on "gross" basis. This is the fastest possible money transfer system through the banking channel. Settlement in "real time" means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. "Gross settlement" means the transaction is settled on one to one basis without bunching with any other transaction.

Engaging Business Correspondents (BCs) **:** In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs. Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

The Biometric Card(s)

To reach the rural masses, banks are going all out in providing a user-friendly banking experience. To boost micro financing initiatives, banks are deploying biometric solutions with ATMs. Establishing the identity of a rural depositor through biometrics makes it possible for illiterate or barely literate folks to become part of the banking user community. In recent years the importance of biometrics has grown tremendously with an increasing demand of security in accordance of unique identification of individuals. Its use for identification in applications other than policing is on the rise. In view of the rapidly increasing applications, the scope of biometrics is also increasing, be it identification via face, voice, retina or iris. Some Indian banks have started implementing biometric applications in retail branch applications for officer authentication. ATM enhancements with biometric support envisaged by vendors eliminate the need for PIN entry, and authenticate customer transactions by thumb-impressions. A simplified menu on ATMs coupled with possible audio guidance in local language enable easy use for rural masses. So far bank ATMs are dependent on PIN verification.

NEFT

“NEFT” is the abbreviation for National Electronic Funds Transfer which is an online system for transferring funds between financial institutions. This system was introduced in 2005 and is highly improved version of EFT (Electronic Funds Transfer) which was confined to a select centre.

NEFT is used mainly to transfer funds below Rs 2 lakhs, and this system is most commonly used for smaller value transactions involving smaller sum of money i.e. from an amount as minute as one rupee. However, there is no maximum limit for transfers through NEFT. NEFT is done on net basis where the bank clubs transactions together and only the net amount is transferred. This settlement usually takes place 7 times a day on weekdays and 3 times on Saturdays. NEFT takes place within the same day if it is within the cut-off time and the next working day.

Adoption of EBT **:** Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

GCC **:** With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks’ customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

Financial Inclusion Index-a way forward

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. The index- along with a report was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi. CRISIL Inclusive is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusive 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 Inclusive 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 Pondicherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Pondicherry), and Thiruvananthapuram (Kerala).

Further, in terms of RBI guidelines Financial Inclusion Plan should cover technology related issues, services to be provided in urban centers, monitoring framework etc. as per minimum qualitative features & quantitative indicators. All these aspects have been taken care of at appropriate places in the proposed plan. Deploying ATMs for rural masses depends largely on banks stepping forward to take the requisite initiatives. The recent directive from the government on financial inclusion ("banking for the common man") is a key driver for the growth of such solutions in India. Banks are quite aware of the untapped potential in the rural sector. The telecom industry is witnessing a blistering growth pace, and so is the Internet. The National Rural Employment Guarantee Program that guarantees employment and payment in the rural sector requires robust solutions.

Benchmarking – a key input for future

The technique initially used to compare existing corporate strategies with a view to achieving the best possible performance in new situations has recently been extended to the comparison of technical products. This process is usually referred to as "technical benchmarking" or "product benchmarking". Benchmarking is a management tool whose time has come in banking .It is a competitive strategy to win market shares and a survival strategy for threatened corporations and industries. As the banking industry becomes globalised and liberalized, clients anywhere in the world will soon expect the same world class service from any bank. Benchmarking facilitates a reduction of operation costs. It has the ability to bring the performance of banks up as a whole significantly. It is an effective wake-up call and helps for change.

Banks may adopt capital adequacy norms, return on assets, return on equity, business per employee, consumer satisfaction as the benchmarks techniques. Benchmarking should be viewed a vital component of new era banking. The customers will obviously demand the best in class and the bank will automatically, to meet their needs, benchmark against the best. Benchmarking is no longer an option but it is something the banks have to take up since it will be customer driven.

Looking from the conceptual management view point, the present trends in global banking and the possible future requirements, greater thrust and new initiatives in benchmarking is a precise prescription. Banking has the challenge of taking on the future especially for the rural sectors.

Conclusion

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. To sum up, banks need to redesign their business strategies to incorporate Informational technologies , specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. Financial inclusion can emerge as commercial profitable business, if the key stated goal of the RBI in considering granting new private sector banking licenses is promoting financial inclusion as well as increasing competition. While this is a positive step for the sector as a whole as it reduces barriers to entry, it is important to understand the reasons for lack of financial inclusion to assess how this measure should be implemented in conjunction with other measures to further the cause of financial inclusion.

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