IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668
PP 71-77
www.iosrjournals.org

Business innovations in Indian banks for Financial Inclusion

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Abstract: *'Universal Financial Access' is the objective of Indian banking sector and they have long been grappling with this issue. The objective of this case study is to understand the new innovative techniques initiated by many banks with the support of RBI, Central bank of India. Reserve Bank of India launched 'Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents' in the year 2006 with the objective of increasing the outreach in banking sector. Under this scheme Business correspondent model and branch free banking is launched by various nationalized and private sector banks in Rural Areas. The key focus is-how to mobilize deposits for priority sector lending to make a financial revolution. The approach for this case study is data collection from various banks both primary and secondary sources and the methods used by them to address this issue on Financial Inclusion. The cost of Financial Exclusion is very high and this case study will discuss success stories of various banks that have addressed this and are making this dream a reality.*

7 more farmers commit suicide in Vidarbha region*
Seven farmers have committed suicide in several villages of Maharashtra's Vidarbha region since Thursday.

The deceased were identified as Baburao Rawte, Pramod Potrajwar, Wasaram Rathod and Ramrao Khokle (all from Yavatmal district), Sanjay Gawande (Washim) and Vinod Mahakulkar and Suresh Ambarwele (both from Wardha district).
Bothbodan village sarpanch Balasaheb Chavan, where Rathod ended his life by swallowing poison on Thursday, said that the desperate farmer had five acres of land and most of his crops, particularly raw cotton and soyabean, were destroyed in unseasonal heavy rains this kharif season.

"Since the crops failed, he couldn't pay the Rs. 2 lakh loan taken from banks and private money lenders. He was depressed because no one would lend again to a defaulter," Chavan said….
**Pradip Kumar Maitra, Hindustan Times Nagpur, November 22, 2013*

I. BACKGROUND:

Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states and the rural-urban divide. Though the Indian economy recorded impressive growth rates until recently, its impact has sadly not fully percolated to the lowest deciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world's poor. Further analysis shows that poverty is getting concentrated continuously in the poorer states.

Today India may boast of 7-8 percent GDP growth but still 50 percent of the population lives below the international poverty line. The economic success of India is a representation of less than half the nation. Imagine the growth possible if the other half is integrated into the mainstream economy. Financial inclusion is the key for this.

Even after 60 years of independence, a large section of Indian population still remains unbanked. This malaise has led generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. It is disheartening to note that the number of people with access to the products and services offered by the banking system continues to be very limited even years after introduction of inclusive banking initiatives in the country through measures such as the cooperative movement, nationalization of banks, creation of regional rural banks.

However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion. Financial inclusion is aimed at providing banking and financial services to all people in fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time & money for multiple visits to avail the banking services, be it opening saving bank account or availing a loan, these families find it more difficult to save and to plan financially for the future.

Why Financial inclusion?

Much of rural India lies outside the reach of banking, because of the high cost of traditional banking. Foreign banks also operate largely in urban areas: of the 333 foreign bank branches, 331 are in urban areas, of which only 44 are in under-banked districts. On the other hand financial inclusion tries to deliver financial services at affordable costs to vast sections of disadvantaged and low income groups.

Financial inclusion is extremely crucial for poverty reduction and equitable growth, especially for the developing nations. Today development in most developing countries is a result of the contribution of the economically top few percent of the population. Through financial inclusion it is possible, over a period of time, to transform these economically deprived people into a large section of society that actively contributes to the economic development. This further leads to a snowball effect. With financial inclusion, banks gain business. For example, in India 49.5 million farm households can be included financially. Financial inclusion and electronic mode of payment can be used to check pilferage of funds to a large extent. Finally, financial inclusion opens up access to a large market, which creates opportunities for global market players and foreign investment, increasing employment in developing countries.

Thus, it is important to understand that the purpose of financial inclusion in India is the integration of the financially excluded into the mainstream banking system, thus providing them a platform for empowerment out of their state of economic and financial deprivation. The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:

1. Creating a platform for inculcating the habit to save money – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.
2. Providing formal credit avenues – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.
3. Plug gaps and leaks in public subsidies and welfare programmes – A considerable sum of money that is meant for the poorest of poor do not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government's subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

Financial Inclusion through BC Model:

Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of rural people. The Indian banking system has adopted multiple approaches to make universal financial inclusion a reality right from early days Indian post-independence banking system. Be it bank nationalization in 1969 or formation of Regional Rural Banks. In 2006, based on the recommendations of Khan Commission, the RBI advised Indian banks to make use of banking business correspondents (BC) and business facilitators (BF) to address access & service issue for all un(der)banked masses all across India. Initially only 'not for profit' entities were eligible to become B.Cs. However, financial inclusion being the policy agenda for the Government, the central bank went an extra mile to facilitate financial inclusion by easing many existing norms like inclusion offer profit entities to become B.Cs. RBI has played a key role in providing enabling environment for BC to flourish. The Scheme for Financial Inclusion by extension of Banking services through Business Facilitators/ Business Correspondents has various objectives and they are:

1. Twin objective of ensuring greater financial inclusion and increasing the outreach of the Bank
2. To provide comprehensive financial services to the underprivileged encompassing savings, credit, remittance, insurance, Mutual Funds and pension products in a cost effective manner, particularly in untapped / unbanked areas.
3. To improve process efficiencies and reduce transaction costs by providing linkages between the existing network of our Branches and the informal and formal agencies engaged with the poor, by adopting technology based solutions.
4. To leverage on the strengths of intermediaries in accelerating the process of financial inclusion.

The scheme was well designed and the Business Correspondent Model is adopted by various banks as per the directives issued by RBI, the Central Bank of India. The success and failure of this model is dependent on various stake holders involved. The agent appointed by the representative banks is one of the most important stakeholders of this BC model. The Business Correspondent helps in obtaining the account opening forms, specimen signatures/biometrics of the customers, verification of identity of the beneficiaries and opening their accounts and in providing the relevant data of the customers to the Bank. The Bank's name will be displayed on the Card comprising the relevant data belonging to the Beneficiary card holder for the banking/financial and other services/products as provided by the Bank. The primary service of Business Correspondents remain to identify customers (individuals and Neighbourhood Groups) for opening "no frills" Savings Bank accounts, Term deposits & Current accounts as per Bank guideline. Secondly, create awareness about savings and other banking products and educate and advice the customers on managing money and debt counseling.

BC in evolutionary Stage:

"We are yet to find an appropriate delivery model," said Dr K.C. Chakrabarty, Deputy Governor, Reserve Bank of India in March 2012. The model was "defective to start with," the Deputy Governor said. (When it began in 2007, only individuals could be appointed as banking correspondents and they were not supposed to work for profits.) "There are many problems: some where the handheld devices are not there, some where else the banks are not paying the BCs sufficiently," Dr Chakrabarty added.

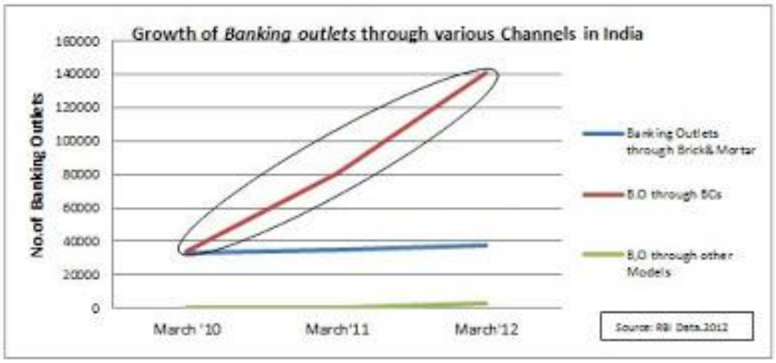
However, it would be wrong to denigrate the model, he also said, pointing out that as of now there are 56,000 banking correspondents across the country. "True, only a part of them are functioning, but we need to find out why it works where it works and why it doesn't where it doesn't," he said. There had been hiccups in rolling out this Model, making it functional but at the same time steps has been taken to implement this model more efficiently. As a result the numbers have started pouring in, there are more number of accounts in rural areas and the transaction in these accounts have also started happening.

Bank-Led, Regulator facilitated model:

A country which houses nearly 16% of the global population has more than 65% of its people outside the formal financial system (Global Findex 2012). The statistics is important to understand the scenario as of now and the contribution of this Business Correspondent model since its inception. The table below gives a comprehensive view of the banking infrastructure in the year 2012.

Banking Infrastructure in India	Source : RBI, ,2012
Total no of brick & mortar branches	*99,000 plus*
Total no. of brick & mortar branches across 600,000 villages in India	*36,000 plus*
No of ATMs	*95,686*
No. of BCs empanelled by Banks	*1,41,136 (*June,30, 2012)*
No. of PoS machines installed	*6,35,653*
*****No. of Mobile Phones***	*936 Million (313 million in rural areas)*

B.C is a bank led model where a technology driven banking agent manager (or individual agents) dovetails with a prudentially regulated well capitalized financial entity (bank). A bank brings trust and robustness whereas a BC brings low cost access, technology and new tailor made products to masses at base of the pyramid and makes banking possible at their doorstep. The following Graph tell us more about the growth of banking outlets in the year 2010- 12 and it clearly depicts the growth is high through Business Correspondent Model. At the same time the job is half done, this is only a beginning and we need to go a long way to achieve Financial inclusion and in turn financial literacy.



Present Status: Is the BC Model a Success?

The numbers tell us a story, that as many as 587 out of a total 638 districts in India and 34 out of 35 States and Union Territories saw improvement in financial inclusion during 2012-13. The data also reflects a significant rise in new savings accounts across the five regions – north, south, east, west and north-east. Overall, 79 million new savings accounts were opened in fiscal 2012, 12.6 per cent more than in fiscal 2011. Also, agricultural credit accounts have grown at 11.1 per cent, which is the most since fiscal 2009. Almost 30 per cent of the 5,125 new bank branches were added in the South, which contributed 9 per cent to the increase. The number of bank branches in the bottom 100 districts has increased by six per cent, faster than the all-India growth of 5.6 per cent.

Implementation in Maharashtra State: A Case:

As per decision taken by State Level Bankers Committee, the implementation was started in two phases in the State of Maharashtra covering 20 districts followed by 12 districts in the later stage and the progress was reviewed through respective Block Level Banker's Committee/ District Central Cooperative including SLBC from time to time. The 100% FI was achieved firstly in the Jalna District followed by 11 districts namely Raigad, Chandrapur, Nandurbar, Amravati, Satara, Solapur, Yevatmal, Washim, Sindhudurg, Wardha & Gadchiroli districts as per the reports available with SLBC. As such 28,22,175 number of no-frill accounts of uncovered families have been opened by all concerned banks in the State. The performance in implementation of Financial Inclusion in 20 districts of the first phase was 93.25%, and of 12 districts of the second phase as of May 2010 was 40.96%. As such the overall performance for 33 districts in Maharashtra state was 74.36%.

Key Industry trends in Financial Inclusion

Financial Inclusion led by the "one district one bank" model has some success stories to share. It (Financial Inclusion) has started off with facilitating the disbursement of government grants. The most prevalent technology model is the Smart Card and Banks are now moving on to integrated technology platforms that offer the flexibility of offering Smart Card, POS, Mobile and Biometric ATM based technology options. Banks ar also taking care to ensure that their technology solution is compliant with the evolving Micro ATM standards set by NPCI (National Payment Corporations of India) and UIDAI (Unique Identification Authority of India) standards of user authentication and encryption. A Financial Inclusion Fund for developmental activities in the FI space and a Financial Inclusion Technology Fund to meet the costs of technology adoption has been created each with an initial corpus of Rs.500 Crores with initial fund contribution from the Union Government, RBI and NABARD.

The first mover in the Blue Ocean – FINO Pay Tech:

The first mover in the blue ocean of financial inclusion business was FINO Pay Tech Ltd - the World's largest banking agent manager (Slide 3, CGAP, 2010). Formed in Mumbai in 2006 with the mission to solve problem of financial exclusion , FINO entered into the market riding on the biometric smartcard & hand held devices technology and has ever since grown exponentially. Today it serves more than 53 million end customers all across India adding net one million (average) new customers to the formal financial system every month. FINO's uniqueness comes from factors like diversified product offering (which ranges from savings, credit, payment services, remittances, insurance and financial literacy etc), a robust technology and dedicated channel of bandhus (banking agents) and mature processes.

Source: FINO Pay Tech Ltd, 2012

The Key Milestones achieved by Axis Bank:

Axis bank is a key player in the Financial Inclusion space since 2006 with respect to disbursal of Government Grants covering 6795 villages across 9 states and 19 districts. The states covered are Andhra Pradesh, Karnataka, Haryana, Punjab, Chhattisgarh, Bihar, Jharkhand, Meghalaya, and Orissa. More than 35 Lakhs No Frills accounts opened so far under the Financial Inclusion Initiatives. Some more milestones are as follows:

1. Launched Rural Financial Inclusion Initiatives in Dindori,in Nashik District, Pulbazar Block in Darjeeling District and East Sikkim on an online POS model involving POS terminals as the transacting device and bank issued debit cards as the transacting instrument. Seven Rural Credit Cooperative Societies have been appointed as Business Correspondents to source accounts and provide banking services to the customers.
2. Launched Urban Financial Inclusion Initiatives in Bangalore,Chennai and Delhi on the same POS model in association with Janalakshmi Social Services.
3. Launched a remittance led FI pilot in the Dharavi - Allahabad remittance corridor in association with IDEA Cellular on a mobile payments platform wherein cash deposits, withdrawals, balance enquiries, last 5 transaction details and P2P remittances are all carried out through a mobile phone.
4. Launch of customized products for the FI customer segment in the category of savings - No Frills Savings accounts, Credit - Micro Insurance:

The bank is also geared up for full scale Financial Inclusion for the beneficiaries of Government grants in next year. Rollout of Financial Inclusion initiatives is planned within 30 kms radius of the branches set up under the Rural Banking Strategy in the 4 States of Punjab, Rajasthan, Gujarat and Tamil Nadu. One integrated technology platform is also initiated that provides the flexibility of employing different types of transacting devices at the front end and that integrates seamlessly with our CBS at the backend; compliant with Micro ATM and UIDAI standards of user authentication and encryption.

Coming from a technology background and having spent time writing advanced code, my first visit to a remote, yet well maintained village near Suryapet in Andhra Pradesh (a southern state in India) was nothing short of a surprise. Having read about business correspondent (BC) model, seeing one in action provided good learning. However, numerous issues surrounding the BC model makes one wonder if the percentage of banked population in India, as claimed by the Reserve Bank of India (RBI) and various other banks, is actually able to use the services and transact as intended.

The first BC we met was helping an old, illiterate woman transact. It was good to see an uneducated woman walk into the BC agent outlet, authenticate her identity, withdraw her money, and leave. She had never been to a bank and was extremely happy that the BC was providing her an opportunity to save and withdraw money whenever needed. On further interaction with the agent, we understood that there were close to 250 people who had enrolled with the agent, of which only 50-60 could transact. This problem seemed to be common with a number of agents we met, which hindered them from providing services to many customers….

Achievements of Canara Bank:

According to Canara Bank CMD RK Dubey, the BC model should be done by the banks themselves. "It should be done either by banks in full capacity or by a contractual employee of the bank who has a long-term commitment towards banking system. The half-baked system of providing banking facility in rural areas by a temporary staff has not served the purpose fully," he said.

Dubey said Canara Bank is passionate about implementing financial inclusion scheme. Specifying that the bank is in the expansion mode, he said, "We have opened 500 branches in 2013 and by the end of March 2014, we plan to open 300 more branches." He also added, "We are looking at expansion and growth in the northeastern states. Besides, we will also open branches in Maoist-affected areas of Jharkhand," Dubey said. A Holistic Approach to Financial Inclusion has been followed in canara bank the highlights are as follows:

1. 136 branches opened in unbanked villages in FY14, taking the tally of branches in unbanked villages to 411.
2. In more than 2000 population villages category, the Bank covered all the allotted 1624 villages in 24 states, under two models, viz., Brick and Mortar Branch Model- 297 villages and Business Correspondent Model- 1327 villages.
3. In less than 2000 population villages category, the Bank covered 1369 villages out of the 8425 villages allotted, under two models, viz., Brick and Mortar Branch Model- 114 villages and Business Correspondent Model- 1255 villages.
4. 52 Financial Literacy Centres (FLCs) operational as at September 2013.
5. In the 121 DBT Districts, the Bank's branches received details of 102972 beneficiaries from District Administration and opened 102387 accounts (99.43%). Aadhaar seeding have been done in 72048 accounts (99.56%) out of the 72360 beneficiaries.
6. Lead District Waynad reached 82% Aadhaar seeding under DBTL and is No. 1 District among 20 Districts in Phase 1.

Quantity Vs. Quality: Where are WE?

Back in Bestharapalli village, Subadhramma, a woman customer who also runs an eatery in the village, told me that she has saved about Rs. 40,000 ($666) through the BC channel. In spite of that she does not get any other service from the BC outlet or the bank, including a loan that she really needs. This was the same experience with most people in the villages we visited. We at Enclude believe that holding convenings such as the BC forum and disseminating discussion papers will help in stimulating ideas to make the BC model more effective so that people at Bestharapalli and the 600,000 villages in India will be able to access more services through the BC channels. When that happens, India's drive to financial inclusion will come to its destination…..

Results show that although most households have a bank account, these are hardly used. Thus the financial inclusion policy, where successfully implemented has addressed access; however comprehensive financial inclusion, including access to services like credit, savings, insurance, pension plans, has not been achieved. Thus right from the policy level the aim should be "usage" with better implementation and not mere "access."

Though RBI is trying to extend banking services to the low income segment, the question really is, in the process of ensuring unbanked individuals are financially included, do they end up excluded? This question has to be answered and the facts provided below further urge a solution that benefits all parties, and most importantly, succeeds in providing banking facilities to even the remotest parts of India.

- BC agents authorized by an aggregator company are not functional even after 6-8 months because banks have not yet activated the user accounts. Banks, with which customers have accounts, have not yet approved the accounts as they are usually busy with their regular profitable business. Banks do not consider the inclusive space as lucrative; however, RBI has made it mandatory.
- Banks are not willing to increase their product range, as of now they offer only the ‘no frills savings account’ and 80% of these accounts opened are dormant and the average balances in these accounts have also been very low and unviable for the banks.
- Existing customers are unable to transact due to various technical and connectivity issues which have to be resolved either by the bank or the BC company. This has lowered the transaction rate as well as customers’ interest towards banking through agent outlets.
- The BC companies are unable to fix the technical issues as they are busy with expansion plans. At the same time, banks are not cooperative as they do not see high volumes of business through the BC channel.

This comes across as a ‘chicken and egg’ situation where people are not clear on what caused the situation, nor are they clear on where to start fixing the problem from. On the other hand, it is the agents that invested in the equipment and infrastructure that are at a loss, depending on the aggregator company that the agents are associated with, this amount ranges between Rs 5,000 and Rs 15,000. Agents become frustrated after pursuing their respective customer relationship executives and banks to get the accounts activated, and the BC companies do not come to their rescue either.

Rather than just trying to cover a lot of population, emphasis needs to be laid on the quality of the service. Fixing issues in the existing system is more important than having a huge number of customers enrolled and not being able to service them. Though the answer to a chicken and egg problem is always debatable, one has to start from some point in order to arrive at a solution, or at least make progress in that direction.

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