CHAPTER-6

INNOVATIVE ECONOMIC STRATEGIES
FOR FINANCIAL INCLUSION

6.1 Introduction:

The Empirical research results showed that the households in three districts are still marginalized with limited basic financial services including that of remittance, postal services, microfinance, and insurance. There is a need for greater focus on the micro and distributional dimensions to achieve financial inclusion. Still the size of the unbanked and underserved population is too large and spread across vast geographies to be properly served by conventional channels alone. And also research analysis results have given clear cut perceptions that just opening account is not going to change the life of any person, but they need to do economic activities such as income generating activities with transaction of money. Then only opening account is useful to any individual to overcome poverty. Then the Innovative Economic solutions are essential to address the scalability and sustainability challenges facing financial inclusion.

Innovative Economic strategies of financial services delivery can have a transformer effect on poor households. The access to finance in small amounts of credit can dramatically improve welfare – such as women being able to buy a sewing machine and establish a small business. Awareness is growing that access to a wider set of financial services provides the poor people with capacity to increase or stabilize their income, build assets and have much greater resilience to economic shocks. Appropriate and affordable savings and credit products, payment and money transfer services (domestic) as well as insurance, are all important. The following points are:

- Providing greater confidence, security, and ease of use for those people using financial services, including overcoming issues such as literacy.
- Providing an affordable platform for the delivery of multiple financial products.
The researcher exploring these issues will provide key learning that policy makers, financial institutions, and technology providers can use a collaborative business model to deliver Financial Inclusion objectives.

6.1.1 Importance of Innovative Economic Strategies:

India has made a greater impact on financial inclusion, even though, there is a long way to go to cover unbanked population, yet to be provided with banking services. The financial inclusion for the underprivileged and lot more work needs to be done to harness the informal financial system that still plays an important role among low-income social and sectoral group in India. But the role of the informal financial sector will diminish in size as the formal financial system takes its place, in delivering basic financial services to a broader segment of the population. Thus the importance of Innovative Economic Strategies for Financial Inclusive agenda is not only compatible but could also promote overall financial stability.

There is an urgent need for innovate economic strategies for financial inclusive economic growth and inclusive human development. This alone will ensure that while prosperity spreads, it is not accompanied by a concomitant deterioration in the quality of life of people, or in the ability of our fragile ecological systems to recharge themselves and remains capable of supporting human life.

6.1.2 Innovation also extends to new institutional approaches

This is the time for innovative economic strategies for the delivery of financial services. So the model allowed previously excluded customer’s access to an increasing range of basic financial services, while at the same time protecting customers, financial institutions and the financial system from abuse and mitigating risk.

Innovative Economic Strategies will improve access to financial services for poor people through the safe and sound spread of new approaches. These strategies will create an enabling integrated collaborative approach and regulatory environment for financial inclusion. The enabling environment will critically determine the speed at which the financial services access gap will close for those who currently excluded. Innovative Economic Strategies derive for accessible, affordable, and available resources for the communities.
Economic strategies which focus on improving human development guide instead of being driven merely by demand, and consumption. Hence, the growth can be providing insights into innovative ways of introducing economic value-addition in a sustainable manner. Innovative economic strategies are indeed at the heart of the new paradigm of sustainability. In spite of the advances in technology, the sophistication of financial products and services that are produced globally, and the fact that the over-drawing of natural resources continues unabated, there are, still, over a billion people in the world, who are unbanked.

6.2 Innovative Economic Strategies

There is a need to create a roadmap for financial inclusive growth and to provide the financial services. There are ways to meet the demand for the full range of financial services for the poor. Innovative Economic strategies will take the lead in creating such a roadmap for not only financial inclusion but also sustainable human development. The road map focus on financial inclusive growth, keeping in mind the unique needs of Indian perspective and its challenges of demography, disparity, and development. Access to financial products, and insurances, products and services is not only pro-growth but also pro-poor, reducing income inequality and poverty, and improving welfare. There are practical evidences that millions of microfinance clients demonstrate that poor people can seize opportunities provided by appropriate financial services efficiently and imaginatively if available.

“Your Bank in Your Pocket: Affordable financial services for all”

Innovative Economic strategies bring to access, affordable financial services for all. The model is that “Your Bank in Your Pocket”(YBYP) product offering is a fully functional transactional bank account that provides micro-benefit for unbanked population access to financial services, offering in line with the needs of the market. YBYP creates uses various strategies such as mobile phones for making real-time person-to-person payments, transfers and pre-paid purchases, and for making payments in the formal retail environment. This model will process with transactional banking and giving people a safe place with safety net of affordable financial services. This includes offering: micro insurance, savings, Personal Loans, MSME loan (Micro and Small Enterprise lending). The YBYP have obstacles in the process, implementations. However, to overcome those obstacles need create strong elements
to success of this strategies. The following diagram shows the important elements and all these elements have been discussed in a detail manner:

**Figure: 6.1 Elements of Innovative Economic Strategies**

![Diagram of Elements of Innovative Economic Strategies]

Sources: Researcher Design

### 6.3 Elements of Innovative Economic Strategies

#### 6.3.1 Macro & Micro Economic policy Drivers for Financial Inclusive Growth:

In the present inclusive growth strategies existed disparities of the growth poverty linkages, income and asset disparity. The recent NSS reports clearly showed that disparity ratio among rich and poor increased the gap to a high level and disparity is manifested not only spatially but also, for instance, in terms of caste, religion and gender across states, with in the districts such as their access to finance, income, employment, physical infrastructure, assets and particularly land holdings, nonagricultural growth, social services and institutional finance. Although the government has acknowledged that the majority of the government social welfare schemes have not reached the poor, who depend upon public systems; and national policies regarding both financial inclusion and health & education set a target for
public expenditure equaling 6 per cent of GDP, and this level has never been achieved (Shigemochi Hirashima, 2011)\textsuperscript{213}.

The past empirical analysis results revealed that various forms of disparity are commonly derived from interrelated disadvantages, for instance, in the economic, social, cultural, geographic, and political arenas and so forth. The structural bottleneck to overcome inequality is also embedded in policy intervention, the delivery institutions of development programmes, rampant corruption and/or a combination of these three. Inclusive growth strategies cannot avoid tackling these interrelated structural problems\textsuperscript{214}.

The government of India realizing that inequitable growth is unsustainable in the long run, has made its objectives clear with policy announcements. The macro & micro policies have been backed by fiscal measures to create a sound social infrastructure. Macro & micro economic policy making entails a mix of multidimensional policies. Therefore, we need to marshal the best scientific knowledge available and study the microeconomic foundations of these macroeconomic concerns and then blend them with intuition and commonsense to craft policy. However, the researcher believe that India’s long term growth prospects will remain buoyant driven by its underlying strong macroeconomic fundamentals and that emphasis on boosting investment activity and setting up of a favorable policy environment will act as a catalyst to unravel the growth potential of the Indian economy during the current decade.

Financial inclusion is the delivery of financial services at affordable costs to all sections of disadvantaged and low income segments of society. According to the Rangarajan Committee Report 2008, financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. The assessment of RBI report on financial inclusion achievement that under financial inclusion are not restricted merely to opening of bank accounts but also


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included other financial services such as credit facility remittance facility, and financial advisory services.

Therefore, policy makers need to concentrate on macro & micro economic growth policies to pave the way for developing a viable and sustainable banking services delivery model focusing on accessible and affordable financial services, developing products and processes for rural and urban consumers presently outside the banking network and for suggesting appropriate regulatory framework to ensure that financial inclusion and financial stability move in tandem.

**Suggestible Macro & Micro Economic Growth Policy drivers for Financial Inclusion:**

- Substantial investments in social and physical infrastructure will be the key growth drivers that will enable the economy to achieve ‘inclusive growth’
- Huge investments on social and economic securities to promote livelihood security and financial support.
- Banking reforms must focus on financial inclusion with the value of banking for the poor and refocus its efforts accordingly
- Substantial investment in the financial literacy, need-based product, and services along with innovative delivery mechanisms need to develop and strong linkages are made between formal banking institutions and community-based financial ventures.
- Investment in physical infrastructure is expected to lead to employment generation, increased production efficiency, reduction in cost of doing business and improved standard of living
- Banks will need to envision long-term profitability as a possibility and low-income customers will need to experience tangible benefits from the services offered facilities is expected to enhance total government expenditure on financial inclusive growth.
- The share of the private sector in infrastructure financing is need to increase
- Investment in the agriculture sector is have to grow
6.3.2 Financial Structure with 5 A’s

Financial inclusion is the delivery of financial services at 5 A’s such as Accessibility, Availability, Affordability, Acceptability, Appropriateness to all sections of disadvantaged and low income segments of society. RBI has to reform its commitments towards providing a safe, efficient, accessible, inclusive, and authorised payment with settlement systems for the country. The 5 A’s will be driven by customer demands of convenience ease of use and access that will impel the necessary convergence in innovative financial products and capabilities. Integration of various systems through unified solution architecture and current technology would lead to adoption and usage of resilient payment systems. RBI has to regulate the channel innovation and competition to meet these demands consistent with international standards and best practices.

Financial inclusion is now a common objective for many central banks among the developing nations. Therefore, to accomplish the vision of financial inclusion the key financial structure is would impact all our efforts towards creation of a modern way of financial inclusion with Accessibility, Availability, Affordability, Acceptability, Appropriateness (BIS and CAFRAL, 2012).²¹⁵

1. Accessibility: According to World Bank Report (2010)²¹⁶ said that the modern development theories increasingly emphasize the key role of access to finances: lack of finances is often the critical element underlying persistent income inequality, as well as slower growth. Access to finance helps to equalize opportunities, reduce inequalities contributes directly to increasing income and reducing vulnerability for the poor. Financial inclusion means building a financial system that serves as many people as possible in a country. Indian policymakers have recognized that the complex and multidimensional factors contributing to financial exclusion will require a variety of providers, products, and technologies

that work within and are a reflection of the socio-economic, political, cultural, and geographic conditions to access financial services in their country.

2. **Availability:** Availability of banking and financial services, insurance products are the crucial factor for the development and keeping the availability of all the services with modern payment systems beyond the banking relationship (Boot, 2000)\(^{217}\). The importance of availability of information, products, and services are the provision has led many technology based solutions to stop-short of full financial inclusion. This development has provided an enabling atmosphere to make available the formal payment systems to all segments of society. Notwithstanding this, it is recognised that more sustained efforts in this regard are required to be taken by all the stakeholders.

3. **Affordability:** Affordable credit at low cost and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognised as a pre-condition for accelerating growth and reducing income disparities and poverty. Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks (RBI, 2008)\(^{218}\). The prolonged and persistent financial exclusion to a large segment of population due to not able to affordable the financial products would lead to a decline in investments and can also result in fuelling social tensions causing social exclusion. Therefore, government has to strive for affordable financial products for the excluded people to include in the main segment. And also keep the payment services, including the e-payment option, should be affordable to all segments of the society. Effective technology deployment and incentive structure should result in the creation of low cost payment products that encourage all customers and users towards their repetitive usage and cut down their dependency on cash.

\(^{217}\) Arnoud W. A. Boot, Relationship Banking: What Do We Know? Journal of Financial Intermediation 9,7-25, 2000

4. **Acceptability:** All the banks, financial institutions and insurance companies should accept for preparation of appropriate financial products and services for the financially excluded people, so that those excluded people are easy to included and easy to achieve financial inclusion objectives and goals within the given period. The acceptability of formal payment channels including e-payments is based on the ease of use, convenience, interoperability, language neutrality, and incentive factors associated with the particular mode of payment. Thus, a multi-pronged strategy is required to increase the acceptability of payment products from the regulators, government, and stakeholders. Receivers of e-payments, in particular, need to be sensitized of the benefits of such receipts over cash/cheques (RBI, 2012)\(^{219}\).

5. **Appropriateness:** Appropriateness is the combined effect of all the above features. Adopting country-specific, comprehensive policies at the country level that respond to both demand- and supply-side barriers will be most effective in fostering financial inclusion (AFI, 2010)\(^{220}\). Therefore, keeping in mind India needs to consider various factors such as geophysical barriers, demographic barriers, and social, sectoral group barriers to access the finance, resources, market, and technology. There is openness and demand for technology-based solutions with appropriate strategies, products, and services to achieve financial inclusion. And the other side the payment products should adapt to the social and cultural milieu and meet the needs of existing and prospective customers. A better and broader understanding of financial instability risk within financial innovation is a key prerequisite for scaling-up particularly in the area of technology-enabled financial services. However, systematic regional efforts are needed to refine and spread insight on these areas widely. Mechanisms that help leverage existing insight need to be strengthened.

### 6.3.3 ICT & Technology Platform for Financial Inclusion

**A. New technology on the horizon:**


The use of information and communication technology has great potential to reduce transaction costs and allow for the expansion and diversification of financial services. It also opens up new options for non-bank players, such as mobile network operators or banking agents, to get involved with the provision of these services via mobile telephones or other devices. Financial inclusion is the delivery of banking and payment services at an affordable cost to the vast sections of underprivileged and low income groups. Access to affordable, sustainable, and secure financial services contributes directly to increasing income and reducing vulnerability for the poor.

Information and communication technology (ICT) of the future will be (smart) phone-centric and broadband Internet in the pocket in terms of Wireless Fidelity (WIFI), Worldwide Interoperability for Microwave Access (WIMAX). ICT has the future with model of MOBIQUITY (Mobility of the cell phone and QUITY of Internet) with added-value mobiquitous services. However, the current challenges in the Government-to Person (G2P) payments in different subsidies and grants disbursements in the government’s social safety nets and other programs, remittance, loans /credits, insurance issues. And also need to present ongoing innovative solutions leveraging the ICTs for the electronic Financial Inclusion (e-FI) platforms. Financial Inclusion represents the first ICT step for Rural Inclusion (RI) issues in India. Cell phones (and smart phones) should naturally be the base to deliver financial and rural services to unbanked people with end-to-end NFC supply chain with food virtual couponing (MBDS, 2010)\(^2\). However, the governments have the difficult task of trying to find the appropriate balance between supporting and reforming the ICT regulation enhancing innovation while at the same time implementing prudent regulation and effective risk based supervision. Therefore, the new electronic or technology-based financial services have so-far gained momentum only in a handful of countries but not in India, and in some of these with regulation thus far kept to a minimum.

B. Role of Technology in Financial Inclusion

1) Among the key constraints cited world over in achieving significant financial inclusion is the cost of servicing small value and unprofitable customer segments or providing credit facilities to those with irregular income history.

2) The combination of IT and mobile telephone along with other IT-enabled services has emerged as a viable solution for greater financial inclusion.

3) Essentially, this combination of technologies minimizes the need for setting up physical branches at all locations with trained persons to man them.

4) It allows the servicing banks to improve efficiency and provides for use of multiple channels to work together as an inter-connected system.

5) The rapid growth of technology and communication infrastructure in India is a great enabler for establishing rural information infrastructure.

6) Short Message Service (SMS), Unstructured Supplementary Services Delivery (USSD), Wireless Application Protocol (WAP), General packet radio Service (GPRS), phone-based application such as Java 2 Micro Edition (J2ME)/Binary Runtime Environment for Wireless (BREW), Subscriber Identity Module (SIM) based application and Near Field Communication (NFC) are the various technology applications available, which can help improve the level of financial inclusion in the country. The typical technology platform as follows:

**Figure: 6.2 Typical Technology Platforms**

![Typical Technology Platforms](image)

MBDS, Project, 2010

There are providing branchless banking services through mobile phones helps banks access with lower investment. Significant telecommunications and technology...
penetration in rural areas is a positive aspect of enhancing banking reach and affordability. Existing technology providers for financial inclusion in rural areas have concluded as follows:

- Building rural information infrastructure is possible using technology
- There is demand for such information systems from service providers

**Figure: 6.3 Key Distribution Technologies for Financial Inclusive**

Some of the commonly promoted distribution technologies for financial inclusion in India include the following:

- IT-enabled Kiosks for Financial inclusion
- IT-Kiosks are among the most common forms of delivering products for financial inclusion.

However, through ICT can prove to be beneficial with potential for improving governance through linkage to the credit delivery system. ATM–based mobile service
delivery systems can be deployed in rural areas using available mobile telephony technologies.

C. Advantages of Using Advanced Technologies:

1. Fi brings banking services through to unbanked population using intelligent devices communicating on General Packet Radio Service (GPRS)

2. Highly cost effective approach using technology and BC model in comparison to the brick and mortar bank branch model

3. Literacy is not a constraint as solution is biometric enabled and supports voice enabled prompts solution provides rich bouquet of services such as bill payments, recharges, insurance, dairy payments, NREGA, EBT, informational services such as Motorola's M-Wallet solution provides enhanced user interface with secured at doorstep of the villager

4. It provides employment to a member of the community serving as a BC agent

5. It brings together the eco-system of Banking, Technology & Value-Added Service (VAS) providers

6. Multiple technology options for a handheld device, mobile phone, web application etc. Technology is interoperable across banks for Unique Identification Authority of India (UIDAI) enrolled customer

7. Platform independent – open source technology

8. Highly scalable and cost effective as deployed on cloud

6.3.4 Public-Private Partnerships for Fostering Access

Public-private dialogue and consultation is critical for the creation of sound and balanced regulation that allows for a constructive partnership towards financial inclusion. These partnerships have the potential to promote outreach and simple access through solid business strategies and usage through appropriate product features and consumer protection. While recognizing the importance of the role played by private actors in promoting financial inclusion, policymakers, and regulators agree that their interventions must avoid coercive or enforcement measures. Financial inclusion, they state, is impossible without have the partnership and support of private actors. Communication and an alignment of incentives through dialogue rather than imposition is an important strategy for building bridges with the private sector. Dialogue between policymakers and the industry is also a powerful tool for
deciphering and mitigating risks that allow for the creation of regulation that fosters innovations in access. This has been important in previous efforts to design microfinance regulatory frameworks, and it appears to be a key condition to build better understanding of the risks and opportunities of technology-enabled financial services (AFI, 2010)\textsuperscript{222}.

Financial systems are multidimensional such as financial depth, access, efficiency and stability, therefore, the public sector should partner with private and social institutions to promote financial inclusion in remote rural areas. The government agencies deliver social benefits to the poor that could be distributed more efficiently through formal financial-services networks, giving providers the volume they need to sustain operations focused on low-income communities. The telecommunication partnership is an excellent example of a model that is being built around the distribution of transfer payments, which is expected to be the first step toward a much wider offering. Regulators must also establish fair rules and policies that enable organizations to innovate and capture sustainable returns while protecting individuals from abuse. Full financial inclusion could potentially accelerate economic development and reduce dependence on the state, and it should be a high priority.

Indian government need to promote the public, private, partnership to deliver and developing strategies that promise to extend financial inclusion. Private-sector should focus on building profitable businesses that meet the needs of the working poor. The unbanked segment represents a tremendous opportunity for businesses, particularly those that act early, and the segment will become increasingly attractive over time as the number of services increases.

Private sector should take lead if results are to be sustainable. Government should provide supportive regulatory environment with price restrictions, whether in the form of interest rate caps or limits on fees, often impede the scaling of financial inclusion. Regulators should allow players to cover their costs of funding and operations. The costs associated with lending to the very poor can be high – this cost, combined with characteristically small loan sizes, largely explains the high rates required for microcredit to be economically sustainable.

\textsuperscript{222} AFI, AFI survey report on financial inclusion policy in developing countries, published by Alliance for Financial Inclusion, Bangkok, 2010
A. Tie-up with Local Governments:

1. **Tie-up with Panchayat Raju Institutions:** Panchayat Raju Institution (PRI) is the most viable and cost effective for financial inclusion. Under the PRI’s Village Panchayat and banks, other financial institutions and SHGs have to agreement with PRIs to extend financial services with proper financial structure for Financial Inclusion

2. **Tie-up with Revenue and Health Departments:** the revenue department will take the birth registration of all new born babies scheme “Financial Inclusion @ Birth”

3. **Tie-up with e-governance such as E-Seva centers** - Banks may enter agreement with state governments for sharing e-seva resources, thereby banking services (receipts and payments) can be extended to the customers, which will be beneficial to all the concerned

4. **Common service centre scheme (CSC)** - As part of National e-Governance Plan, CSC was introduced in the year 2006 under Public Private Partnership mode to offer web enabled utility services (electricity, telephone and water bills) in rural areas. Around on lac CSCs are in operation and banks may examine to use their services as BCs which will be beneficial to all the concerned.

5. **Tie-up with Post Offices** - Modernization of post offices is full swing and the connectivity is expected to be completed by 2013 (Shri. Kapil Sibal, Minister of Communications statement in Loksabha on August 11, 2011). Banks may make use of the existing post office network of 1.50 lakh offices across the country for the purpose of providing banking services especially in unbanked areas either through online connectivity or using smart cards. It is a fact that rural folk feel comfortable to undertake banking transactions through post offices as the trust level is relatively high compared to other entities.

6. **Tie-up with all other stakeholders** like Civil Societies, NGOs, etc. to work together for a sound and purposeful collaboration.
B. Tie-up with Private Sector:

a. **Tie-up with Telecommunication companies:** India need to tie-up with telecom companies to deliver financial services, health services and other governmental development services. Banks have indeed realized the role that can be played by mobile banking in reaching out to the unbanked areas as well as the on the run customers and have tied up with leading providers like Airtial Vodafone, Idea, Aircel, Reliance, Tata Ducomo, and Vodafone to cater mobile banking services. If the government able talks a positive signal for both the telecom and banking industry in terms of revenue and reach, it has also initiated discussion about the drift in the traditional role played by the telecom sector, from that of a provider of voice and message service to everything under the network. With the provision of mobile service, mobile banking, mobile commerce etc these telecom companies will definitely target the avenues which will give those returns in the same scale to achieve financial inclusion. With the consistent growth and returns of the banking industry the telecom companies seemed to have found the perfect ground.

b. **Tie-up with IT companies:** In order to encourage cashless transactions, particularly for small value transactions, all banks need innovative technology implying the customer’s data and cash transactions with local banks. Mobile banking, next major technological leap with the adoption of technology, the Indian banking sector has undergone significant transformation from local branch banking to anywhere-anytime banking. Therefore, India government need to tie-up with major IT companies to deliver the best software for financial inclusion. There are some concerns:

c. Need to develop Adequate IT infrastructure such as digital and physical connectivity, uninterrupted power supply, etc. will boost the financial inclusion initiatives.

d. The Electronic Benefit Transaction (EBT) model will deliver financial products and services with cost effective manner to end customers.

3. **Tie-up Electronic Media:** This is called “T-Banking” - Today, we rarely come across a house without television. It has become one of the cost effective modes to disseminate information and to provide entertainment to the public. Banks may make
use of the existing cable network to extend banking services to vast segment using this mode as non-branch service delivery channel. However, this model is yet to take a shape for pilot implementation

6.3.5 Building Human Capacities for Financial Inclusion

Financial inclusion means building a financial system for the human being that serves as many people as possible in a country. Building Human Capacities works to strengthen their knowledge improve understanding of financial products; improve awareness on financial products and services in a manner that prepares them for the challenges of a digital economy. The complex and multidimensional factors contributing to financial exclusion will require a variety of providers, products, and technologies that work within and are a reflection of the socio-economic, political, cultural, and geographic conditions. Hence building human capacities for which peer-learning is underlined as extremely important at the earlier stages of the learning cycle. They therefore demand focused support for capacity building (AFI, 2010)\textsuperscript{223}

There is an urgent need for building human capacities to innovate new strategies for sustainable economic growth and inclusive human development. Government has recognized that there are supply side and demand side factors driving inclusive growth. There are basic constrains access to financial products and constrained by several factors which include lack of awareness, lack human capacities about the financial products, high transaction costs and products which are inconvenient, inflexible, not customized and of low quality. In this entire scenario, the need for financial inclusive growth that focuses on building human capacities development indices in order to achieve financial inclusion that would inclusively improve the quality of life and the human development indices of all (BIS and CAFRAL, 2012)\textsuperscript{224}.

6.3.5.1 Develop Strong Customer Compassion

Customer compassion means understanding a customer’s wants and have the ability to interact with that customer in a personalized way. It’s the ability to

\textsuperscript{223} Abide…

imagine what the life of that customer is like. Developing strong customer empathy is challenging, especially when one is doing business with the poor. On many occasions, poor customers are unwilling to express their real views about products because of fear of comparison with peers or because of survey weakness. Besides, some businesses have a tendency to lump the poor into a single mass of consumers (Gupta, 2012), when in fact, several segments exist, and each needs to be understood as follows:

i. **Promoting Awareness Activities:** It is very important to promote awareness activities through information sharing on all financial products and services as well as other government development schemers.

ii. **Promoting Free ICT Trainings:** It is the delivery of ICT learning, training and development opportunities designed to build capacity across all section of the society at different level.

iii. **Financial Education:** Financial education play a vital role in making demand side response to the initiatives of the supply side interventions. Financial inclusion is one of the top most policy priorities of the Government of India. One of the most visible aspects of the governance has been agenda of social inclusion of which financial inclusion is an integral part. ‘Financial literacy, and education, plays a crucial role in financial inclusion, inclusive growth and sustainable prosperity.

iv. **Financial Literacy:** To begin the financial inclusion process, one needs to understand financial products, usage, operation, and management of accounts. As defined by the Reserve Bank of India (RBI), financial education is "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of required to complete the financial inclusion lifecycle. Optimum utilisation of an account should be another target for banking service provider’s financial risks and opportunities, to make informed choices, to know where to go for help, and

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to take other effective actions to improve their financial well-being.” Efforts for financial literacy can be driven through microfinance institutions (MFIs), self-help groups (SHGs), cooperative and rural banks. Collaboration between these parties would accelerate results.

v. **Sharing Information, Knowledge, and skills:** Increasing range and complexity of products has made it very difficult for an ordinary person to take an informed decision. Financial literacy develops confidence, knowledge and skills to manage financial products and services enabling them to have more control of their present and future circumstances.

vi. **Promoting entrepreneurship:** Small entrepreneurs who would be educated and already have a business sense will benefit through awareness about new financial products and help them to understand the dynamics of market mechanism and improve their business dealings.

vii. **Demand side initiatives** - Create awareness, literacy, national strategy, Curriculum in schools at national level.

viii. **Sensitization** - Efforts to be made so as to bring about cultural and attitudinal changes in the mindset of all stakeholders.

ix. **Capacity-building:** Scaling up of operations will be crucial for the long-term viability and implementation of initiatives in the banking system. Infrastructure costs need to be shared by the entities involved. The challenges involved will not just be in terms of customer acquisition, but also in suitable product design and customer servicing.

### 6.3.5.2 Local Governance and Local Institutions for Financial Inclusion

Improving local government accountability improves all types of service delivery, particularly for the poor, increasing the resources allocated for public services without fixing the accountability incentive structure will most likely not translate into greater development benefits for the poor. Decentralization (devolution) offers significant opportunities to improve government accountability. It creates the possibility of exerting stronger pressures on government performance both (the demand side) and from above (the supply side). Decentralization reshapes power relations among the local residents, local governments, producers of local government services, and higher levels of government (including central government). It sets new
rules of the political game, helping new local leaders to emerge in the political competition. Decentralization thus leads to new interactions and contractual relationships between local governments, between small and big private firms, and between providers and producers of services, and communities and nongovernmental organizations (Serdar Yilmaz, 2008). A Gram Panchayat shall function as a unit of self-government and, in order to achieve economic development. It is the implementing agency of most of the development programs and also monitors and evaluates programs as well as it is the main service providing agency at the ground level. At this level, Gram Panchayat is a very powerful and influential body, wielding effective control over substantial resources and political power as grass roots institution, Gram Panchayat the lowest tier of the three-tier system - is closest to the people and the locality.

Gram Panchayat is also one of the most responsible stakeholders in successful implementation of NREGS program. Gram Panchayat is responsible for creating awareness about the scheme, receiving application, register names, issue of job cards, provide employment to the job seeker and also keeping records of the works under NREGS.

1. Development Approach with GIS Strategies:

In the GIS application two kinds of data (spatial and non-spatial) is used. Spatial data creation needs fair experience of conducting GPS based ground survey, analysis of satellite imagery apart from expertise in the GIS tools and technology. Most of the departments in the Government are not capable of doing such kind of activities but collects non-spatial data from MIS (Management Information System) in the form of reports and charts. Most of the planning is based on the reports available with the departments which may not require exact location in terms of Latitude and Longitude. Most important aspect in the development of web based GIS framework was to make

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it easy for end-users (Rabinowitz, 2012). Anybody can use this framework without any prior knowledge of GIS tools, which has following tremendous features:

1. Seamless maps generation of Districts from Block/Tensile Village level
2. Keeping Spatial Data in the Database
3. Taking village boundary as the base for generating maps of any level (District, Tensile, Block, Village Panchayat, Division, etc.)
4. Provision of integration of the village layer with non spatial data of various schemes running in the village
5. The geographic area of a State is being divided into Districts, Tehsils, Blocks, and Revenue & Panchayat Villages etc for various administrative/development reasons as depicted in Figure below.

2. Digital Inclusion Framework and Drivers: Inequality in the use and application of digital technologies is a new driver of social, regional and economic exclusion in the 21st century, which risks accelerating existing social, regional and economic divides and creating new ones (Singh, 2011). The drivers of digital inclusion varies from state to state, region to region and across different segments of market, but most commercial and government market research suggests that the three key factors which drive people first to become digitally engaged and subsequently to become more sophisticated in their digital engagement are: Access to ICT, Confidence and Motivation. With spatial data as follow:

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Such inclusive governance, besides ensuring political empowerment, through enabling people to control their own destiny, would also yield significant inclusive growths. When grass-roots planning processes strike deep roots, economic empowerment is both strong and sustainable. Social empowerment through inclusive governance would help safeguard social, ethnic, and cultural values of people, which in turn would lead to building trust of their governments in tribal communities. Active participation of people in the political processes and in grassroots planning will bring about the desired transformation of the region by establishing peace and setting in motion the wheels of progress towards prosperity.

6.3.6 Business Strategies for Financial Inclusion

In the present context there are various delivery model needs to be devised carefully so as to move from a cost-centric model to a revenue-generation model. This will help in providing customers with quality banking services at their doorstep and at the same time generating business opportunities for the banks (Dr. K.C. Chakrabarty, 2011)\(^{229}\). This is sustainable only if delivery of banking services, at the minimum, includes the following four products:

- A savings-cum-overdraft account

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A remittance product for electronic benefits transfer (EBT) and other remittances

- A pure savings product, ideally a recurring deposit scheme
- Entrepreneurial credit in the form of a Kisan credit card (KCC) or a general credit card (GCC)

RBI has undertaken financial inclusion initiatives with the goal to achieve full financial inclusion. Through a combination of strategies ranging from provision of new products, relaxation of regulatory guidelines and other supportive measures to achieve sustainable and scalable financial inclusion (Dr. K.C. Chakrabarty, 2011). RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and SHG bank linkages for small deposits and Kisan credit cards:

**Figure: 6.5 RBI Initiatives for FI**

Source: RBI Reports, 2012

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230 abid…
1. **Opening of no-frills accounts**: Basic banking no-frills accounts 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.

2. **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 Aadhar number.

3. **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.

4. **Use of technology**: 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.

5. **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.
6. **Simplified branch authorization:** To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban, and urban centres without the need to take permission from RBI in each case, subject to reporting.

7. **Opening of branches in unbanked rural centres:** To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

The present existing financial inclusion deliver strategies were failed for the following reasons:

1. **High cost:** The existed financial inclusion strategies are costs for the banks to deliver to the poor people. The financial institutions find it difficult to make a profit as the FI transactions are typically low value and the volumes continue to stagnate due to the poor usage intensity of the products and services.

2. **Economic viability of BC model:** The current business model is not economically viable for the BC. We found in this research the majority of the BCs representatives are political influenced and representing for particular political part but not to the need customers. And also other main reasons, firstly there are not enough products, lack of accountability and low technology for distribution by the BC beyond savings and withdrawals. Secondly they cannot charge commission/fees from the beneficiaries and end up depending upon the bank for their remuneration. The operational expenses such as high travel cost in the most of the time, is not re-reimbursed (Rajdeep Sahrawat, 2012). Additionally, the BCs have to bear the cost of the hand-held devices and pay interest to banks on the over-draft provided to

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them. There is also little incentive for BC to push any products as either he does not get a commission or the commission is very low. The geographical restrictions on a BC have a negative impact especially in hilly districts where population density is low and terrain inhospitable. Cash management is also a challenge as the BC has to deposit the cash with the bank branch within a stipulated time period which is often not possible in remote areas. While ideally the cash management should be outsourced to a specialised third party, the banks are reluctant to undertake the additional expense.

6.3.6.1 Renovating the Business Model

Financial inclusion depends on the ability of organizations to develop sustainable new business strategies that enable them to meet the needs of poor customers at scale. The growth of the financial system and its architecture implies that the banks cater to a whole host of diverse stakeholders who have equally diverse expectations. The success of the banking system as a whole depends on how well these stakeholder expectations are met. Therefore, Indian banking industry needs to take, in order to effectively meet the diverse stakeholder expectations, and overcome the present challenges.

a. Productivity and Efficiency

Banks have to play an important role for financial intermediation by performing the task of maturity and risk transformation, besides providing payment and settlement services. With the purpose of effective performance functions, banks need to ensure that they maintain high levels of productivity and efficiency in their operations. Two kinds of efficiency are essential for banks:

- **Allocation Efficiency**: Banks have to ensure that the precious societal resources are allotted to the most productive activities. Besides, while taking allocation decisions, the interests of the most vulnerable sections of the society should also be taken into account.
- **Operational Efficiency**: The operational Efficiency requires banks to perform the financial intermediation function in a safe, secure, and speedy manner while ensuring that the cost of performing the intermediation function is minimized. While profit margins are important for sustaining banking
operations, the cost of operational inefficiencies of banks should not be passed on to customers by way of higher service charges and fees.

### 6.3.6.2 Multi Agency Approach

India need a multi-agency approach to financial inclusion, for developing a viable and sustainable banking services delivery model focusing on accessible and affordable financial services, for developing products and processes for rural as well as urban consumers presently outside the banking network and for suggesting appropriate regulatory framework to ensure the financial inclusion and financial stability.

Developing innovative delivery as an efficient business model and delivery channels would be the key to our financial inclusion initiatives. Understanding customer requirements is a prerequisite for devising the right products and enhancing customer value perception. A sustainable financial inclusion product must consider the target customers as follows:

- Demographic aspects
- Psychological and motivational triggers
- Employment potential
- Demands and needs
- Cost concerns

The fundamental shift in thinking that focuses on the sector is more on better understanding the value of banking the poor. Some of the issues are as follow:

- Financial inclusion efforts must focus on moving beyond simple financial access to developing products that, according to market research, meet the particular demands of the poor;
- Government of India should develop policies that incentivize business correspondents to promote and market No Frills Accounts;
- Financial institutions must leverage linkages to government-to-person payments (MNREGA), biometric identification programs (UIDAI), and growing mobile phone networks.
6.3.6.3 Institutional Financial Structure and Products

In India it can be seen that the issues of unsuitability clearly indicate a failure of product design leading to disconnect between what is needed and that which is delivered, which can only be addressed by understanding the larger customer need (R Muralikrishna, 2012). Thus India needs suitable institutional financial structure and products with services. These as follows:

Figure: 6.6 Financial Structure & Products

Source: Murali Krishna, 2012

1. **Scheduled Commercial Banks (SCB):** Being the largest banking group, they have an important role to play in financial inclusion of the urban and rural poor and other unbanked segments through the deployment of technology and BCs.

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2. **Regional Rural Banks (RRB):** RRBs with an objective of ensuring sufficient institutional credit for agriculture and other rural sector plays an important role in the last-mile financial inclusion in rural economy.

3. **Primary Agricultural Credit Societies (PACS):** Primary Agricultural Credit Societies are credit institutions at the grass-root level. They deal directly with individual farmers and others involved in activities of the rural sector.

4. **Self-Help-Groups:** SHG are the village level with individual relationships for the financial need and SHGs have to play vital role in promoting financial inclusion.

5. **Post Office:** where there are no banks in remote areas of the villages the post office have take proactive role to play for financial inclusion.

6. **Microfinance Institutions:** MFIs are the reachable at any clients including hills areas, remote agency areas, and rural villages. Therefore, the MFIs have to consider for the poorest of the poor to promote financial inclusion.

7. **Insurance Companies:** Insurance companies have to develop the suitable insurance products for the poor people as individual, families, and groups. So that majority of the poor people able to cover under insurance products.

8. **NGO:** Non-Governmental Organisation (NGO) or Community Based Organisations (CBO) is wheelers to promote financial inclusion. NGOs and CBO have to work with Accountability, Responsibility, Commitment and Transparency (ARCT) model.

Banks and financial institutions are gathering, processing, and analysing information in order to improve their services and meet the expectations of customers. Banks only need to provide the necessary technological and infrastructural capabilities and delivery mechanisms- for example, core banking or mobile banking platforms - to reach the product where it is required, banks must also ensure that these come with adequate backward and forward linkages to support the achievement of customers’ financial goals. For instance, besides offering credit products to farmers, a structure to take care of the sale of their produce and help them secure fair and timely payment for the same in a seamless manner. They must also look at ways of
tweaking financial products to help the poor customers meet expenses, the bulk of which is incurred during social occasions such as weddings and festivals. Hence, an ideal product is one that helps customers better their income generation options, along with taking care of a range of their financial requirements from meeting social expenses to paying for personal, medical, and healthcare necessities and subsequently to the second level of savings and investments which in turn enables the realization of value to the product offered by the financial institutions.

6.3.6.4 Emerging Mobile Technology for Financial Inclusion

1. Unique Identity Number:

The UID would serve as identity proof for all purposes including the opening of a bank account; it is likely to make it easier to link financial transactions to the payment gateways providing banking access to rural urban poor and remote population. Efforts are underway to link the UID project with financial inclusion for a strong foundation of delivery of better services in an efficient way. All public sector banks are acting as Registrars to undertake enrolment and authenticated services to their clientele and also other residents using technology embedded outsourced model.

With the advent of 3rd generation of mobile telecommunications (3G), it is expected that technology will further enhance the mobile broadband penetration among people residing in rural regions. Franchising with different types of financial services institutions such as cooperatives, RRBs etc, may extend the scope of financial inclusion with minimal intermediation cost.

Business Model for Financial Inclusion:

India had to adopt some of applicable business strategies to expand their financial services as follows:

- Strategies adopted as per banking penetration and financial eco-system
- India has chosen a co-operative and collaborative framework
- with banks playing a lead role with non-banks acting as BCs/partners driven by ICT based solutions
2. Mobile phone based financial services:

India had about 771.18 million mobile-phone users as on January 2011. According to the Telecom Regulatory Authority of India (TRAI) 9 million new users subscribe to mobile service every year. Mobile based financial services refer to broad range of financial activities that consumers can access using their mobile phones. Mobile phone transactions include the use of network airtime or e-currencies for deposit transfer of funds or credits and payment of services. Mobile based banking services mainly fall under two categories.

- **Mobile banking (m-banking):** Since mobile technology has the potential to reach out to the large unbanked population in remote areas, mobile banking provides technology support for increasing outreach for financial inclusion.

- **Mobile payments (m-payments):** With the help of mobile payments, even a remotely located banking customer can conduct payment transactions via a mobile device without the help of an intermediary.
3. Automated Teller Machines (ATM)

Since ATMs are computerized telecommunication devices providing facilities for financial transactions in public space without the need for cash human clerk or bank teller— they rely on authorization of a financial transaction by the card users or other authorizing institution via a communication network. Several new-technology ATM devices have been designed to improve financial services in rural and remote areas so that even the illiterate customers in unbanked areas can avail ATM facilities. They included biometric-mobile and micro-ATMs

Unique Identity Number (UDI) would be an important element in this way:

It is expected to usher in a significant change in the way banks or financial institutions reach out to the rural population

a) Biometric ATM: Enables the illiterate and semi-literate customers to avail ATM facilities. Eliminates the need for pin numbers thumb impression of the cardholders is scanned and stored for authentication— users scan their thumb to access their account through the ATM

b) Mobile ATM: Devices ATM services on a van; the van moves to predetermined places providing facilities such as opening of accounts and handling enquiries, it help in providing ATM facilities to customers is unbanked areas. Provides banking access to biometric card holders also

c) Micro ATM: Provides a low-cost ATM alternative with basic features such as cash withdrawal and balance enquiry. Can be located at easily accessible locations where rural people visit frequently, such as petrol pumps and markets

4. Biometric Handheld Device:

- It is handheld device for use by BCs
- The device provides facility for thumb impression scanning or retina detection for user identification
- While images can be read with the device, it can also provide audio conformations of transactions and issue receipts
5. Smart Cards and POS

- Smart cards help store all customer information including photographs and fingerprints.

- The smart card user can deposit or withdraw by swiping it at a point of service (POS) terminal, which saves transactions information for uploading on the banks main service.

**Figure: 6.8 Emerging Technologies for Financial Inclusion**

6.3.5 Bottom of the Pyramid for Financial Inclusion

Why is Bottom of the Pyramid important for Financial Inclusion? The actual benefits of the programme, aimed at financial inclusion, have not reached the disadvantaged communities in villages, which was the real target. This proposition holds true even today, reasons that are behind this are related with poverty, unemployment and unequal distribution of income. Same reasons are applicable now but the circle of
poverty result showed that inadequate availability of financial resources and giving opportunities. So there is a need for the economic development and its growth it is necessary that adequate capital is provided. In the ever day of life finance is the life blood for any business without it a country can never flourish (Nurkse, 2011)\textsuperscript{233}.

It is important, because it is a necessary condition for sustaining equitable economic growth. There are few, if any, instances of an economy transiting from an agrarian system to a post-industrial modern society without broad-based financial inclusion. As people have comfortable access to financial services, we all know from personal experience that economic opportunity is strongly intertwined with financial access. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, and avail credit. Importantly, access to financial services also helps the poor insure themselves against income shocks and equips them to meet emergencies such as illness, death in the family or loss of employment. Needless to add, financial inclusion protects the poor from the clutches of the usurious money lenders.

**Why the banks are not interested in serving the rural disadvantaged more over the low income group irrespective of any priority or regional discretion?**

It can be seen that past experience majority of the banks and other financial institutions are not willing to provide loans for poor people, due to their business targets and risks in the covering the loans. Now the question arises as to following are the major reasons that stop the banks from serving the low income masses:

**x. Supply side causes (Banks)**

- Risk and Return
- Lack of Guarantors
- No collateral securities
- Setup cost
- Bankers have high level partiality towards poor people
- Lack of efficiency of bankers towards providing services

\textsuperscript{233} Ragnar Nurkse, Financial Inclusion “Widening the Bottom of the Pyramid, published by Skoch Consultancy, New Delhi, 2011
- Lack of business and moral ethics
- Local Political Influences or references
- Lack of commitment and lack of interests towards financial inclusion
- Majority of bankers focus only on business but not supporting for poor
- More emphasis on priority sector lending
- Monetary policy

xi. Demand Side Causes (Poor People)

- High Transaction cost
- Lack of product flexibility
- Majority of the poor people are financial illiterates
- Lack of awareness on financial education
- Lack of awareness on financial products and services
- Lack of awareness on interest rates
- Lack of awareness on utilization of Debt card and ATM services
- Lack of awareness on internet banking
- Lack of collateral
- Lack of Infrastructure

6.3.5.1 The Innovation Sandbox

According to C.K. Prahalad, "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up" (C K Prahalad, 2005). The Innovation Sandbox is a guide organisations can use to fulfill the core requirements of the BOP, by coming up with innovative solutions to resolve the problems and overcome the obstacles. This model is applicable to the BOP, because it is a problem-solving tool that focuses on constraints to identify new opportunities. Organisations often don’t know how to approach the BOP as a target market, which

234 The Fortune at the Bottom of the Pyramid | C.K. Prahalad and Stuart L. Hart, Rural India-An untapped market for Global solution providers-Article, ICFAI Journal/Marketing mastermind/Feb 2006 | Baby Thomas
might be a reason why they struggle to target the BoP successfully. The Innovation Sandbox can assist them (Tanye ver Loren van Themaat, 2011).235

The conditions which have to be fulfilled to design successful breakthrough innovations for the BoP population:

1. The innovation must result in a product or service of world-class quality
2. The innovation must achieve a significant price reduction compared to other products
3. The innovation must be scalable: it must be able to be produced, marketed, and used in many locales and circumstances.
4. The innovation must be affordable at the Bottom of the Pyramid, reaching people with the lowest levels of income in any given society

These conditions were tailored to organisations in the healthcare industry that want to target the BoP. There are organisations that have pursued strategies where they have successfully developed unique products and services for the BoP through experimentation. An organisation must accept the challenges and constraints that exist when targeting the poor. (Anderson J, 2007)236 Observe that organisations that have achieved success in the BoP were normally those who have developed an approach that delivered the 4 A’s presented in Figure 6.9.

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235 Tanye ver Loren van Themaat, A Business Model Development Strategy to expand into the Bottom of the Pyramid population, Engineering Management at the University of Stellenbosch, South Africa, 2011.
The financial institutions have to pursue strategies to develop unique products and services for the BOP through experimentation. From the perspective of the private sector, to gain strategic competitive advantage that is sustainable and profitable; one needs to address the immediate and distant needs and realities of the BOP.

6.3.5.2 BOP and Commercial Revitalization

There are negative effects of commercial activities on the society and environment that it cannot be business as usual. One of the roots of private sector renewal and revitalization lies in operating and serving the BOP markets. The BOP markets present a new commercial infrastructure that is pegged on four (4) factors that may create the much needed market pull for disruptive technologies that will ultimately replace unsustainable technologies (Christine Auclair and Alban Jackohango, 2008).237

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237 Christine Auclair and Alban Jackohango, Bottom of the Pyramid Approaches for Urban Sustainability, published by UN-HABITAT - WORKING GROUP, 2008
6.3.5.3 The Business Model Canvas target the BOP

The Bottom of the Pyramid is not like the middle- and upper-class markets. It doesn’t react to circumstances the same way. Their lifestyle and culture is different, and they are used to struggling. They struggle to live with the little they have and to find products and services that are in close proximity and easy to use, while not costing a fortune. Therefore, the financial institutes must accept and work around the constraints and limitations experienced by the BoP. Personal service and the interface between the customer and the financial institutions are very important to them. The BOP sometimes lives in faraway, isolated locations that make marketing and distribution difficult. Therefore, (A, 2004) Business Model Canvas must be use for financial inclusion as follows:

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Osterwalder A. The business model ontology - A proposition in a design science approach Lausanne: University of Lausanne; 2004.
The changes to the Business Model Canvas are minimal and take the constraints and requirements of the BOP into account by grouping and organising the details in the building blocks slightly differently make the distinctions between the different building blocks clearer. These adjustments are as follows:

1. The Customer Segment will be called Customer, because the segment is already known: the BoP. This building block will be concerned with the needs and requirements of the organisations current and potential customers (overshot and non-consumers).

2. The Customer Relationship building block will be renamed Customer Interfaces. This block will be concerned with the relationship between the customer and the organisation, how they interact, and how positive customer experience can be increased (a responsibility that this block takes over from the Channels building block).

3. The Channel building block concerns itself with distribution and marketing: how the customer is made aware of the product and how the organisation will get the product to the customer on time, in good shape and within budget. The BoP is a very
difficult market to target, because it lacks traditional marketing and distribution channels.

4. The Revenue Streams building block will mainly focus on Pricing and ensure that the BoP can afford the product and a large volume is realised. This block will also consider the pricing model of an organisation and how it makes money.

5. The rest of the building blocks will stay the same

Most of the financial institutions are unable to be innovative beyond their own business strategies. They end up becoming the best in their specialised field, because all they can do is sustainable innovation, i.e. improving on what they have. Expanding into the BoP requires the right business model to be able to bring affordable technology and available networks to them, bringing the expensive few options to everyone at an affordable price.

6.3.6 Financial Governance Structure and Regulation for Financial Inclusion

There are a number banks and financial institutions increasingly entering the market with advanced technology to provide appropriate services to the financially excluded. This creates many opportunities as well as challenges for governments, policymakers, private sector companies, telecommunication, IT companies, and end users of financial products and services. Mostly, there is a need to better understand the specification of these institutions that reach the un-banked populations, and further assess the informal economy to adapt existing regulations for the benefit of greater financial inclusion. Therefore, the new regulation strategies need to be developed with cost effective considerations to reach all the financially excluded rather than a continued focus on trying to modify current strategies which are proving inadequate to meet the needs of the financially excluded (APFFI, 2012)\textsuperscript{239}.

Financial governance structure and regulations for reforming the applicable Policies are need to enable them to deliver products that are geared to the actual needs

of those clients. Uniformly important, all consumers need the same level of protection regardless of who are the providers. However, finding the right balance between self-regulation and formal regulation is difficult. Self-regulations and formal regulation are both required and should complement each other. Key challenges are the development of policies on disclosure, fair treatment, and effective recourse mechanism/grievance channels which are also applicable for those not banked by the formal banking sector such as NGO-MFIs, cooperatives or NBFIs (World Bank, 2012). The financial sector need have adequate supervisory capacity to enforce regulation stability and should have the goal of promoting financial inclusion with specific consideration of domestic councils of financial inclusion to coordinate different regulators and supervisors.

Protecting the customer is equal to protecting the industry with effective prudential regulation and is necessary to protect deposit taking regulated financial institutions as well as their clients. Non-prudential regulation, such as regulation for consumer protection, is also very important and a major challenge. However, non-prudential regulation, such as anti-money laundering (AML) and combating financing of terrorism (CFT), can potentially slow the progress of financial inclusion by, for example, by have very strict Know Your Client (KYC) requirements which can exclude the poor. These regulations need to be adapted to the domestic context. (APFFI, 2012)

The technology trends in the growth and development of the financial services industry tends to move faster than regulation because the technology innovations, such as mobile banking. The RBI has to highlight five key areas where further regulation is required: 1. The industry needs more specific regulation on agent banking (Regulation determines ‘what agents’ are allowed, specifies the role of non-bank agents and non-bank issuers of e-money providers need to be held liable for actions of their agents); 2. Specific requirements are needed regarding AML/CFT for

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agents; 3. Protection of e-money; 4. Consumer protection (specifically consumer understanding, data privacy and security); and 5. Ensuring a legal authority to regulate/supervise providers of mobile banking services.

Therefore, the regulatory approaches to financial inclusion should embrace the concept of “proportionate regulation.” The main principals behind proportionate regulation for financial inclusion are: 1. Regulation should encourage market development; 2. Regulatory initiatives should be subject to cost/benefit analysis; and 3. Regulatory environment should create incentives for market players to work towards financial inclusion.

6.3.6.1 Proportionate Regulation

The proportionality principle is basically the balancing of risks and benefits against costs of regulation and supervision in standards and guidance, and domestic-level implementation. Proportionate regulation for financial inclusion calls for putting aside preconceptions of risk based solely on the ‘already served’ and the current products, services and providers that serve them and seeks greater consideration of a ‘test and learn’ approach with respect to new avenues to reach financially excluded customers.

**Key Principles proportionate regulation for financial inclusion includes:**

- Regulation must encourage market competition and should support financial inclusion/inclusive growth while maintaining financial system stability.
- Proportionate regulation initiatives should address the fundamental causes as to why access to finance may be restricted, as a first step.
- Regulatory initiatives should be subject to cost/benefit analysis.
- Incentives structures are key to promoting financial inclusion.
- Proportionate regulation should also focus on alternative forms of finance, such as venture capital, managed funds, and leasing products.
- Desirable to have equivalent prudential regulations for institutions providing financial services but may be exceptions for micro finance loans, loans only MFIs and cooperatives.
Ideally, all financial institutions to be regulated under umbrella legislation but approaches will vary across economies, dependent in part on form of regulatory system

Commercial service providers require incentives and justified by viable business strategies

6.3.6.2 Existed Regulations in India

In year 2008, the Reserve Bank of India (RBI) issued mobile banking guidelines that permit only licensed banks with a physical bank presence in India to launch mobile banking. This disqualifies mobile network operators from offering their own service

The ‘Operative Guidelines for Banks’ issued by Reserve Bank of India, specify that ‘Only banks, licensed and supervised and have a physical presence in India, will be permitted to offer m-banking services’. Services shall be restricted only to customers of banks and holders of debit/credit cards issued as per Reserve Bank of India guidelines (RBI, 2009)\(^{242}\).

Table: 6.1 RBI guidelines

<table>
<thead>
<tr>
<th>Model</th>
<th>Bank based</th>
</tr>
</thead>
<tbody>
<tr>
<td>KYC</td>
<td>Banks shall put in place a system of document based registration with mandatory physical presence of customers, before commencing services</td>
</tr>
<tr>
<td>Maximum limit of transactions</td>
<td>Per transaction limit 2500, Overall cap of INR. 500 per day, per customer</td>
</tr>
<tr>
<td>AML/CFT</td>
<td>Regulated under the “Prevention of Money Laundering Act 2002”</td>
</tr>
<tr>
<td>E-money issuance</td>
<td>Policy on e-money clearly does not permit issuance by non-banks</td>
</tr>
<tr>
<td>Payment system</td>
<td>The Payment and Settlement Systems Bill 2008</td>
</tr>
<tr>
<td>Cross border money transfer</td>
<td>Strictly prohibited</td>
</tr>
<tr>
<td>Other applicable law</td>
<td>Competition Act (2002), Consumer Protection Act (1986)</td>
</tr>
</tbody>
</table>

6.3.6.3 Prepaid Payment Systems: Regulatory Framework

Indian Parliament has recently passed the Payments and Settlement Systems Act 2007. This Act has provided authority to the Reserve Bank of India (RBI) to regulate Payments and Settlement Systems in the country. It is proposed to regulate most of the open loop prepaid payments by the RBI and a guideline can be provided for close loop card with requirement to provide type of information from time to time in view of Public Interest and ensuring the integrity of these payment systems (RBI, 2009)\textsuperscript{243}.

6.3.6.4 Suggestible Regulation

These Regulations should ensure that holding the customer funds has adequate controls to protect those funds. If those financial institutions and banks follow ‘Open Loop Prepaid Systems’ which provide funds, release or international remittance services may be covered by the proposed law, such products may be on either the ‘Bank Led Model’ or permit Payment Systems under the Payment and Settlement Act which can demonstrate adequate controls, capital and liquidity requirements to ensure the protection of customer funds. In the Close Loop Prepaid Payment System which are providing specific payment services with less risks to limited merchants, there is no cash redemption may be exempted from licensing under a regulation, and be required to register and comply with general guidelines for their registration and annual information for data collection point of view should be provided. And also there is a ‘Hybrid Prepaid Payment System’ which could be exempted from licensing under a regulation, but they should be asked to register and in some case be authorized to operate under a regular code of conduct and basic guidelines. They may be asked to provide additional information from time to time in proportion to the risk (IAMAI, 2012)\textsuperscript{244}.

6.3.6.5 Implementation Support Framework

Institutions can play in support of country financial inclusion actions. Increased support may be needed for utilizing financial inclusion and infrastructure diagnostics and data to inform policy and legal reforms, strengthening the capacity of the private sector and civil society to participate in financial target-setting and in design (through

\textsuperscript{243} Abid...

\textsuperscript{244} IAMAI, Prepaid System of India: Discussion Paper, published by Internet & Mobile Association of India, New Delhi, 2012
consultation) of reforms, capacity-building for low-income country regulators and policymakers; technical tools for real-time impact assessment can feed into policy implementation; and testing and rolling out viable business strategies for low-income clients (World Bank, 2012)\(^{245}\). The policy support framework as follows:

**a. Public Sector Actions: Policies, Regulation, and Financial Infrastructure**

Policy and regulatory reforms, and financial infrastructure development, which are based on diagnostics and data, can enable expansion of financial inclusion, to the benefit of households and firms. Another reason why there is convergence between financial regulation and financial inclusion is that if financial intermediaries have to deliver affordable services they need to take advantage of technology and economies of scale – this requires them to grow to some optimal size. Such growth is not possible without capital. Investors and lenders are comfortable with providing more funds only if such entities are regulated

Public sector initiatives and market interventions may be justified in limited cases due to market failures, or to incentivize private sector actions in the interim while reforms and financial infrastructure are put in place.

**Figure: 6.12 Action Plans of Policies, Regulation, and Financial Infrastructure**


b. Private Sector Actions

- The financial sector response is critical and determines whether financial inclusion targets are met, through financial institutions introducing new services, adapting existing products and processes, rolling out new delivery mechanisms, etc.

- Viable business strategies are still being developed, and an environment is needed that enables innovation and the entrance of nontraditional actors, while ensuring that financial stability, consumer protection, and financial integrity are maintained as priorities.

c. Implementation Support Framework

- A package of support for financial inclusion can be designed in parallel with financial inclusion strategies, in order to ensure sequenced and effective support to country-led strategy implementation, in response to country demands and priorities.

- Capacity-building support may be needed for countries facing institutional and resource limitations in implementing financial inclusion actions to meet agreed targets and objectives.