CHAPTER 3

Financial Inclusion in India

3.1 Introduction:

Bank nationalization in India marked a paradigm shift in the focus of banking. The importance of financial inclusion, based on the principle of equity and inclusive growth, has been engaging the attention of policy makers internationally. Achieving universal financial inclusion is, indeed, a global objective and has multiple dimensions. Several countries across the globe now look at financial inclusion as the means for a more comprehensive growth, wherein, each citizen of the country is able to use his/her earnings as a financial resource that they can put to work to improve their future financial status and simultaneously contribute to the nation’s progress.

3.2 Characteristics of Financial Inclusion:

Typically, financial inclusion in India is characterized by the following:

1. Lower outreach by financial institutions/MFIs/SHG Bank Linkage Programme in comparison to below poverty line (BPL) and low income population.

2. Priority Sector Lending norm of 18% advances to agriculture is not met in many states. Also, agriculture’s share in Priority Sector Lending has been declining in some states.
3. Financial inclusion is characterized primarily as either general access to loans (mostly consumption or consumer loans rather than livelihood loans) or access to savings accounts. Very few risk management and vulnerability reducing products are available to small holder producers.

4. Access to finance is primarily a bridging resource for many low income groups.

India ranks 2nd in the world in terms of financially excluded households after China. India is place of the largest unbanked population where, only 35 percent adults having an account in financial institutions which shows that percentage of account penetration in India just below rest of the developing world. And around 145 million people are excluded from banking. About 50 percent of adult’s reports in Andhra Pradesh and Delhi NCR and 40 percent in Gujarat, Kerala, and Maharashtra having a formal account but Bihar, Orissa, and Rajasthan reports less than 30 percent account penetration. As per data available from Census 2011, India is having population of around 1.22 billion and 65 per cent of adults across the country are excluded from the formal financial system. As per the report of World Bank, In India, only 35.2 percent adults above the age of 15 years have an account at formal financial institutions. 55 percent population has deposit accounts and only 9 percent population have credit accounts with formal financial institutions. Reports show that there is one bank branch per 14,000 persons. Just 18 percent are debit card holders and less than 2 percent are credit cards holders. In India, despite expansion of bank branches post reform period, the total branches of commercial banks including RRB”s and SCB”s has still stood only 33495 in a country to provide service to 6 lakh villages. So there is only one bank branch over the 12.5 villages. In India and other BRICS economies unbanked respondents
reported obstacles to access formal accounts. And only a little less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage.

Financial inclusion is indeed a panacea for India, in order to ensure balanced economic growth across regions. However, the realities on the ground indicate that complete financial inclusion may not be easy to achieve, and may, in fact, remain elusive for decades. The global financial crisis has brought the need for financial inclusion into greater focus worldwide as it is believed that widespread incidence of financial exclusion was one of the factors that precipitated the financial crisis. While spread of financial inclusion is recognized through formal financial institutions such as banks, credit unions, post offices or microfinance institutions, the approach of keeping some/ all of these entities as a part of the core or as support players, varies from country to country. Besides, it is important to note that the defining principles of financial inclusion, coverage, role and responsibilities of institutions and measurement / monitoring requirements have been evolving over the years.

India is a fast developing economy in Asia with a population of about 1.28 billion as per 2015 and a GDP of USD 2066.90 billion in 2014. In spite of global financial volatility India has achieved commendable success in maintaining a steady growth rate of around 7.4% per annum in 2014 and reducing absolute poverty in head count ratio to almost 23.6% in 2011. The current target is to reduce poverty in the country. As per the survey conducted in 2011-2012, the percentage of persons below the Poverty Line in India for the year 2011-12 has been estimated as 25.7% in rural areas, 13.7% in urban areas and 21.9% for the country as a whole. The respective ratios for the rural and urban areas were
41.8% and 25.7% and 37.2% for the country as a whole in 2004-05. It was 50.1% in rural areas, 31.8% in urban areas and 45.3% for the country as a whole in 1993-94. In 2011-12, India had 270 million persons below the Tendulkar Poverty Line as compared to 407 million in 2004-05, that is a reduction of 137 million persons over the seven year period. India’s performance has also been impressive according to almost every macroeconomic and social development indicator during the period.

3.3 Scenario of financial inclusion in India

In India, the scenario of financial inclusion is no better than it is in other parts of the world. India has approximately 650,000 villages, in which around 70% of the population lives. However, only about 36,000 villages are said to have a commercial bank branch. As per data from the Reserve Bank of India (RBI), there were 82,485 branches/offices of 171 commercial banks in India, as of March 31, 2009. Financial inclusion, financial literacy and consumer protection are the three major planks of financial stability. While financial inclusion acts from the supply side, providing the financial market/services that people demand, financial literacy stimulates the demand side, making people aware of what they can demand. The demand side issues in financial inclusion include knowledge of financial products and services, credit absorption capacity, etc. These issues are faced by both developing and developed countries. The supply side issues cover financial markets, network of banks and other financial institutions, appropriate design of products and services, etc. These issues are mostly faced by the developing countries. A framework for financial inclusion needs to take into account various aspects such as the demand and supply side issues; assessment of enabling environment; issues in
penetration, barriers to financial inclusion, etc. Second, availability of appropriate financial products, including at the very least, savings products, emergency credit, payment products and entrepreneurial credit are important aspects of financial inclusion environment. Further, regarding ease of access, the various dimensions are timely access, distance, pricing and terms & conditions. In addition to this, the fairness & appropriateness of products is also an important dimension in the context of financial education of customers and for consumer protection. Third, the monitoring framework should cover transaction level, customer level and products and services level monitoring, at the micro level. In addition, monitoring at the macro level is also an important dimension for assessment of the outcome of policy, viability of delivery models, etc. This calls for impact analysis and penetration studies.

Access to financial services plays a critical part in facilitating economic growth and reducing income inequality. Inclusive financial systems allow poor people to smoothen their consumption and insure themselves against economic vulnerabilities they face - from illness and accidents to theft and unemployment. Financial inclusion enables poor people to save and to borrow - allowing them to build their assets, to invest in education and livelihoods opportunities, and thus to improve their quality of life. Inclusive finance especially benefits disadvantaged groups such as women, youth, and rural communities. For all these reasons financial inclusion has gained prominence in recent years, across the world, in many countries as a policy objective to improve the lives of the poor. Recognizing that 2.5 billion adults worldwide are ‘unbanked’ the World Bank has put forward a vision for achieving universal financial access by 2020. More than 50
countries, including India, have made ambitious commitments to financial inclusion targets.

In December 2003, former United Nations Secretary-General Kofi Annan said, “the stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.” Globally, an estimated 2.5 billion working-age adults have no access to formal financial services, as delivered by regulated financial institutions.

The United Nations defines the goals of financial inclusion as follows:

- access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- sound and safe institutions governed by clear regulation and industry performance standards;
- financial and institutional sustainability, to ensure continuity and certainty of investment; and
- competition to ensure choice and affordability for clients.
3.4 History of Financial Inclusion in India

The history of financial inclusion in India is actually much older than the formal adoption of the objective. Financial inclusion activities in India can be said to have started even before the independence of the country. After independence, the process of including the poor into different financial benefit programmes continued under the central bank, various government safety net programmes. India is a pioneer in empowering the poor by broadening the base of financial access through several types of financial institutions. Along with the formal banking sector, there are non-banking financial institutions, cooperatives, microfinance institutions and other government and nongovernment financial institutions providing different financial services to the poor population.

The nationalization of banks, Lead Bank Scheme, incorporation of Regional Rural Banks, Service Area Approach and formation of Self-Help Groups - all these were initiatives aimed at taking banking services to the masses. The brick and mortar infrastructure expanded; the number of bank branches multiplied ten-fold - from 8,000+ in 1969, when the first set of banks were nationalized, to 99,000+ today. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. The extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts. The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is abysmally low at 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent of the population.
The RBI first broached the topic of financial inclusion by setting up the Khan Commission in 2004. The recommendations of the Commission were incorporated in the mid-term review of policy in 2005 and 2006. The RBI urged banks to make available a basic "no-frills" banking account to the masses, with a view towards achieving greater financial inclusion. Financial inclusion was introduced by K.C. Chakraborthy, chairman, Indian Bank, in 2005. Mangalam in Tamil Nadu became the first village in India where all households were provided with banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than INR 50,000.

3.5 RBI’s current initiatives to promote financial inclusion were as follows:

A more focused and structured approach towards financial inclusion has been followed since the year 2005 when Reserve Bank of India decided to implement policies to promote financial inclusion and urged the banking system to focus on this goal. Our focus has, specifically, been on providing banking services to all the 600 thousand villages and meeting their financial needs through basic financial products like savings, credit and remittance. The objectives of financial inclusion, in the wider context of the agenda for inclusive growth, have been pursued through a multi-agency approach. In 2006, the Government of India constituted a Committee on Financial Inclusion\(^6\), which made a wide range of recommendations on the strategies for building an inclusive financial sector and gave a national rural financial inclusion plan. Government of India has set up the Financial Stability and Development Council (FSDC), which is mandated to focus on Financial Inclusion and Financial Literacy issues.
<table>
<thead>
<tr>
<th>Financial Inclusion Progress: Banks and RRBS</th>
<th>Year ended March 2010</th>
<th>Year ended March 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Outlets in Villages-Branches</td>
<td>33,378</td>
<td>46,126</td>
</tr>
<tr>
<td>Banking Outlets in Villages-Branchless Mode</td>
<td>34,316</td>
<td>3,37,678</td>
</tr>
<tr>
<td>Banking Outlets in Villages-Total</td>
<td>67,694</td>
<td>3,83,804</td>
</tr>
<tr>
<td>Urban Locations covered through BCs</td>
<td>447</td>
<td>60,730</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through branches (No. in million)</td>
<td>60.2</td>
<td>126.0</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through branches (Amt. in billion)</td>
<td>44.3</td>
<td>273.3</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through BCs (No. in million)</td>
<td>13.3</td>
<td>116.9</td>
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<tr>
<td>Basic Savings Bank Deposit A/c through BCs (Amt. in billion)</td>
<td>10.7</td>
<td>39.0</td>
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<tr>
<td>Basic Savings Bank Deposit Accounts Total (No. in million)</td>
<td>73.5</td>
<td>243.0</td>
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<tr>
<td>Basic Savings Bank Deposit Accounts Total (Amt. in billion)</td>
<td>55.0</td>
<td>312.3</td>
</tr>
<tr>
<td>Overdraft facility availed in Basic Savings Bank Deposit Accounts (No. in million)</td>
<td>0.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Overdraft facility availed in Basic Savings Bank Deposit Accounts (Amt. in billion)</td>
<td>0.1</td>
<td>16.0</td>
</tr>
<tr>
<td>KCCs – (No. in million)</td>
<td>24.3</td>
<td>39.9</td>
</tr>
<tr>
<td>KCCs – (Amt. in billion)</td>
<td>1,240.1</td>
<td>3,684.5</td>
</tr>
<tr>
<td>GCC - (No. in million)</td>
<td>1.4</td>
<td>7.4</td>
</tr>
<tr>
<td>GCC - (Amt. in billion)</td>
<td>35.1</td>
<td>1,096.9</td>
</tr>
<tr>
<td>Information and Communication Technology A/Cs-BC- Transaction - (No. in million) (During the year)</td>
<td>26.5</td>
<td>328.6</td>
</tr>
<tr>
<td>Information and Communication Technology A/Cs-BC- Transactions - (Amt. in billion) (During the year)</td>
<td>6.9</td>
<td>524.4</td>
</tr>
</tbody>
</table>
In order to further strengthen the ongoing financial inclusion agenda in India, a high level Financial Inclusion Advisory Committee has been constituted by RBI. The Committee would 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. Financial sector regulators including RBI are fully committed to the Financial Inclusion Mission as follows:

1. **No-frills bank accounts:** Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts. "Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy." RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in
advance in a transparent manner. All banks are urged to give wide publicity to the facility of such 'no frills' account, so as to ensure greater financial inclusion.

2. Use of local language in application forms

3. KYC: Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers.

Most of us have faced a problem in opening a bank account in the absence of valid know-your-customer, or KYC, documents, and wished for a simpler documentation process. The Reserve Bank of India, has finally lent ear to millions of such prospective account holders. It has simplified the KYC documentation to make account opening less onerous.

RBI advised Banks to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority. These ‘Know Your Customer’ guidelines have been revisited in the context of the Recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). Detailed guidelines based on the Recommendations of the Financial Action Task Force and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision, with indicative suggestions wherever considered necessary, have been issued. Banks have been advised to ensure that a proper policy framework on ‘Know Your Customer’ and Anti-Money Laundering measures is formulated with the approval of their Board and put in place.
Simplification of Know-Your-Customer (KYC) norms for small accounts with balances not exceeding INR 50,000. Banks are required to provide a choice of a 'no frills account' where the minimum balance is nil or very small but having restrictions on number of withdrawals, etc., to facilitate easy access to bank accounts. Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the 'KYC' procedure for opening accounts for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts. In such cases banks can take introduction from an account holder on whom full KYC procedure has been completed and has had satisfactory transactions with the bank for at least six months. Photograph of the customer who proposes to open the account and his address need to be certified by the introducer. The use of Business Correspondents would entail the expansion of customer base with large numbers of non face-to-face customers. Considering the need to provide banking services to the under-serviced rural people of small means, RBI may examine relaxing/simplifying the documentation requirements in respect of accounts of rural poor opened through the channels of the Business Correspondents. Such relaxation may apply to accounts with transactions upto a limited extent, say Rs. 100,000 per year.
The Reserve Bank of India has imposed a Rs 1.5 crore penalty each on Bank of Maharashtra, Dena Bank and Oriental Bank of Commerce for violation of know your customer and anti money laundering norms, it said in a statement. The central bank cautioned and directed eight other banks -- Central Bank of India, Bank of India, Punjab and Sind Bank, Punjab National Bank, State Bank of Bikaner & Jaipur, UCO Bank, Union Bank of India and Vijaya Bank to put in place appropriate KYC practices.

4. Appointment of Rural Intermediaries, i.e., Business Facilitators (BFs), who provide education regarding financial products and collect documents on the bank’s behalf, and Business Correspondents (BCs) who provide deposit collection and money lending. In Jan 2006, the Reserve Bank of India issued a new set of guidelines allowing banks to employ two categories of intermediaries - Business Correspondents (BCs) and Business Facilitators (BFs) - to expand their outreach. According to the guidelines, while the BCs are permitted to carry out transactions on behalf of the bank as agents, the BFs can refer clients, pursue the clients’ proposal and facilitate the bank to carry out its transactions, but cannot transact on behalf of the bank.

The BC/BF model is a model which based on information and communication technology (ICT). In this model the intermediaries or BC/BFs are technologically empowered by the banks to provide the last mile delivery of financial products and services. Initially created by the banks themselves and later with improvisations and RBI policy support, the model on the back of innovative
technologies is bridging the connectivity gap between the service seekers, i.e., under-served public, and the service providers, i.e., the banks.

This new channel works through a process of collaboration by the bank with one or more partners. The BC model in India has been primarily led by banks, but the players in this model are different from those in the traditional banking models. The BC agents range from unemployed youth to kirana shop owners, microfinance institutions (MFIs), not-for-profit institutions, and other nonbank-related agents. These partners often include:

a. Technology Vendors, who provide a range of hardware and processing capacity and connectivity which can link clients to BCs and BCs to the bank.

b. Business Correspondents, which are organizations or individuals that organize and offer one or more points of transaction outside of bank branches. The BCs organize and manage a network of such transaction points in partnership with a bank.

c. Customer Service Points, are individuals, shops or other outlet points which are responsible for the direct contact with the clients. CSPs open bank accounts, conduct KYC, cash out withdrawals, receive payments and in some cases, extend credit.
TABLE 2

**Business Correspondent Company & Related Technology Vendor**

<table>
<thead>
<tr>
<th>Business Correspondent Company</th>
<th>Vendor</th>
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<tbody>
<tr>
<td>Eko Aspire Foundation</td>
<td>Eko Financial Services Ltd.</td>
</tr>
<tr>
<td>FinTech Foundation</td>
<td>FINO</td>
</tr>
<tr>
<td>Zero Mass</td>
<td>A Little World</td>
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</tbody>
</table>

However, a number of issues both for the partner banks and also for the regulators have surfaced since the start of this model. Some of them being

a. Profitability of the BFs/BCs
b. Banks and their BF/BCs are exposed to huge risk of cash management
c. The training and hand-holding of the BF/BCs to enhance the trust level of the end customers
d. Adoption of technology
e. Compatibility and integration of technology used by the banks and their BF/BCs.

To date, a range of organizations and even individuals have played the role of Business Correspondent. This includes newly formed not-for-profits (often Section 25s), NGOs, MFIs and even village grocers, dealers in agricultural inputs and retired bank officials have been used as facilitators. The Post office has tied up with SBI.

The model has faced several criticisms and many studies have called the BC model unviable. Accounts that were opened have remained dormant. Since the
BCs do not have any incentive structure, they are not motivated to work. In many cases, the BCs have started their own business; therefore, they cut corners and offer poor services. The Banks are worried about losing their reputation as the BCs are the face of the bank to the clients, and they have not done much to publicise their BCs. This makes the clients further doubt the intention of the BCs. Moreover, banks in India allow most BCs to open no-frills accounts only and do not allow them to conduct any credit-related activities.

5. Adoption of Information and Communications Technology (ICT): use of mobile technology: Banks have experimented with mobile banking in rural areas by several modes, including the use of mobile cash counters. The location and time of operation are usually synchronized with market days so that larger numbers of people could transact business. However, due to manpower constraints and inadequate volumes to cover costs, banks have not seen these operations as scalable models for wider replication. One of the most remarkable developments in terms of innovation in order to harness the full power of technology, the banks have tied up with mobile operators to provide financial services like bill and utility payment, fund transfer, ticket booking, shopping etc. Some examples of this model are m-Pesa by Vodafone and Airtel Money.

6. Adoption of Electronic Benefit Transfer (EBT): banks have been advised to Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel by leveraging Aadhar card scheme under which
social benefits will be transferred electronically to the bank account of the beneficiary, thus reducing transaction costs and corruption.

7. Encouraged the SHG-Bank Linkage Model, one of the largest micro finance models in the world, under which 4.79 million SHGs have been credit linked, covering 97 million poor households (till March 2012).

8. Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform.

9. Substantially liberalised the BC based service delivery model in phases.

10. Permitted domestic scheduled commercial banks to freely open branches in Tier 2 to Tier 6 centres.

11. Mandated banks to open at least 25% of all new branches in unbanked rural centres.

12. Pricing for banks totally freed; Interest rates on advances totally deregulated.

13. Opening accounts for Migrants

The account opening form has been simplified to ease the opening of account by the poorer sections, street hawkers and other migratory laborers of the society. Amidst the urban landscape, one of the biggest hindrances which migrant workers face while opening a new account is the mandatory requirement of a valid address proof – both permanent and temporary. Often it has been observed that migrant
workers don’t have a stable current address as they usually stay at different places during their temporary tenure. This forbids them from having a bank account and taking advantages of the Govt. schemes, and they miss out. Reserve Bank of India (RBI) has issued fresh guidelines for norms pertaining to opening of new bank accounts, which has simplified the process for ‘low risk customers’. Henceforth, only one proof-of-address is sufficient to open a new bank account. In fact, any utility bill, which is not more than 2 months old can be used for purpose. RBI notification said, “Henceforth, customers may submit only one documentary proof of address (either current or permanent) while opening a bank account or while undergoing periodic updating. In case the address mentioned as per proof of address undergoes a change, fresh proof of address may be submitted to the branch within a period of six months.” It is further guided that Banks should develop a clear Customer Acceptance Policy laying down explicit criteria for acceptance of customers.

14. Opening Customer Service Centers

15. Credit Counseling Centers

16. Kisan Credit Card: The Kisan Credit Card, now popular all across the country, is a financial product innovation of far reaching significance. The card enables the farmer to get loans over a three to five year time frame as a revolving credit entitlement. These features give a farmer unlimited flexibility to manage his cash flows, reduces the documentation costs to a third or fifth of what was incurred in the past and also obviates the need for frequent branch visits, thereby keeping his travel costs to the minimum. A farmer's consumption requirements are also built
into the credit limit, recognizing thereby that a banker's attempts at bifurcating productive and nonproductive components of a loan does not match with a farmer's view in which caring for himself and his family is as important as crop husbandry. The reduction of work load for the rural bank staff due to simplification of documentation, a minimum of paper work and a reduction in transaction cost has resulted in better banker - client relationships. Many banks have innovated on the base KCC product and developed variants by integrating Term Loans and Crop Loans and providing other features akin to a 'General Purpose Credit Card' besides personal insurance linkage. Under this scheme banks issue smart cards to the farmers for providing timely and adequate credit support from single window banking system for their farming needs. During 2012-13 (up to December 2012), public and private sector banks issued 1.2 million smart cards as KCCs.

17. General Purpose Credit Cards (GCC) :- In 2005 Reserve bank of India, issue guidelines to banks that to provide General Purpose Credit Card (GCC) which facilitate credit up to Rs.25000/- without any collateral requirement for rural and semi urban people based on assessment of household cash flows. Now as per the revised guidelines in Dec."2013 under this approach bank also fulfill Non- farm entrepreneurial credit requirement of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weaver's Card etc) There will be no ceiling on the loan amount as long as the loan is for the purpose of non-farm entrepreneurial activity and is otherwise eligible for classification. as priority
sector. Security norms will be applicable as per Reserve Bank guidelines on collateral free lending for micro and small units issued from time to time.

18. Saving account with Overdraft facility: - Banks have been advised to provide overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. The setting up of the limit for the same would be done by banks considering the transaction in the account. This would help the customer to get easy access to the credit at lower rates.

19. Mahatma Gandhi National Rural Employment Guarantee Scheme: The Ministry of Rural Development, Mahatma Gandhi National Rural Employment Guarantee Act (Mahatma Gandhi NREGA) aims at enhancing livelihood security of households in rural areas of the country by providing at least one hundred days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. The Mahatma Gandhi NREGA has become a powerful instrument for inclusive growth in rural India through its impact on social protection, livelihood security and democratic governance. Mahatma Gandhi NREGA is the first ever law internationally that guarantees wage employment at an unprecedented scale. The Act came into force on February 2, 2006 and was implemented in a phased manner. In Phase I it was introduced in 200 of the most backward districts of the country. It was implemented in an additional 130 districts in Phase II 2007-2008. The Act was notified in the remaining rural districts of the country from April 1, 2008 in Phase III. All rural districts are covered under Mahatma Gandhi NREGA.
20. ATM based banking: - In some states, the state government has taken initiatives for providing kiosk based model for access to financial services. Also banks have used the technology to enable their ATMs to virtually act like a 24x7 branches

21. Branchless Banking: - Some of the leading banks have come up with this concept where there would be an online system with chat facility assisting the person to make use of various electronic machines for depositing and withdrawing cash and cheques. However this initiative is in a very initial stage and has a limitation in terms of initial Cost for banks and literacy / knowledge for the rural population and hence this concept is currently limited to urban and semi-urban areas.

22. Domestic commercial banks have been permitted to freely open branches in smaller towns and cities with a population of less than 50,000. Banks have been mandated to allocate at least 25% of the total number of new branches to rural areas, with populations of up to 9,999 each.

23. Aadhar Enabled payment services: - In this system, any Indian citizen having an Aadhar number updates his account with the same. All accounts having aadhar number updated are to be reported to RBI, which in turn reports it to various government departments. While making payments to people for working under initiatives like MGNREGA or various subsidy schemes, the departments use this information for directly crediting the money to the beneficiary’s account. This not only reduces the delay in the benefits being received by the end user, but also reduces the chances of corruption in the distribution of the benefits under
schemes. Also the unique biometric identification data stored in the Aadhar database is expected to empower a bank customer to use Aadhar as his/her identity to access various financial services. A pilot scheme in four districts of Jharkhand state is currently being carried out under which MGNREGA wages to labourers are credited to their Aadhar enabled bank accounts.

24. emphasis on financial literacy

Some important features of the strategic initiatives for spreading financial inclusion in India included:

i. A roadmap for providing banking services covering villages in a structured way. In the first phase villages with population above 2000 was targeted. The focus has now shifted to villages with population less than 2000.

ii. Introduction of New Products – Making available a minimum of four banking products through the ICT based BC model.

iii. Our strategy has been to create an ecosystem comprising of a combination of branches and ICT based BC outlets for evolving an effective financial inclusion delivery model.

iv. In order to further facilitate financial inclusion, interoperability was permitted at the retail outlets or sub-agents of BCs (i.e. at the point of customer interface), subject to certain conditions, provided the technology available with the bank, which has appointed the BC, supported interoperability. However, the BC or its retail outlet or sub-agent at the point of customer interface would continue to represent the bank, which has appointed the BC.
v. Banks have been advised that they may set up intermediate brick and mortar structures (in rural areas) between the present base branch and BC locations, so as to provide support to a cluster of BCs (about 8-10 BCs) at a reasonable distance of about 3-4 kilometers. Such branches should have minimum infrastructure, such as a Core Banking Solution (CBS) terminal linked to a pass book printer and a safe for cash retention for operating large customer transactions and would have to be managed full time by bank’s own employees. It is expected that such an arrangement would lead to efficiency in cash management, documentation, resolving customer grievances and close supervision of BC operations.

vi. The evolution of the BC model comprises of the following four stages:-

• Stage 1 : Mobile Business Correspondents

• Stage 2 : Fixed Location Business Correspondent Outlets

• Stage 3 : Low Cost Intermediate Brick & Mortar Structures (Ultra Small Branches)

• Stage 4 : Full fledged Brick & Mortar Branches
<table>
<thead>
<tr>
<th>Measures for Financial Inclusion by Government of India, RBI and NABARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Service Centres, Credit Counselling Centres, Adhaar Card Scheme, The National Agricultural Insurance Scheme, No-frill Account, Know Your Customer, General Credit Card, Project on Processor Cards, Micro Finance Development Fund</td>
</tr>
</tbody>
</table>
1.8 Sectors Likely to Benefit from Financial Inclusion

The sector likely to benefit most from financial inclusion would be BFSI: i.e. banking, financial services and insurance.

As stated earlier, since penetration of banking and financial services is currently poor in India, wider financial inclusion could potentially benefit the organized BFSI sector. In particular, organized players would be able to draw market share from unorganized money-lenders.

Other beneficiaries would include credit-based industries, such as real estate, automobiles, commercial vehicles, tractors and consumer durables.

Conclusion:

Despite 67 years as an independent nation, India is still lagging behind in the process of providing financial services to the masses with nearly half the households remaining unbanked, and nearly ninety percent villages not having bank branches. More importantly, people in these unbanked areas do not fully appreciate why they need a bank account at all, or why loans from the formal sector are more useful than the informal sector. The advantages of a financially inclusive model are many-fold. Illustratively, unbanked and underprivileged could receive appropriate and timely payments for social benefit and employment schemes through the Direct Cash Transfer program.