CHAPTER 3

CONCEPTUAL BACKGROUND OF FINANCIAL INCLUSION AND RESEARCH MODEL FRAMEWORK

3.1 INTRODUCTION

This chapter traces the history of Indian banking industry, background and origin of financial inclusion, and explains the objectives of financial inclusion. Further it discusses the nature and consequences of financial exclusion, and the determinants that are affecting the financial services of the rural people. Various schemes and business models launched by RBI towards financial inclusion, such as Basic Savings Bank Deposit Account (BSBDA) and other initiatives are well explicated in this chapter. Finally the chapter concludes with the ‘Pradhan Mantri Jandhan Yojana’ (PMJDY) its background, features, role of technology in financial inclusion and the research model framework of the study.

3.2 HISTORY OF INDIAN BANKING INDUSTRY

Reserve bank of India (RBI) is the central apex and regulatory authority for the banking sector in India. Banking Industry can be classified as Commercial Banks and Co-operative Banks. The commercial banking structure in India includes Scheduled Commercial Banks and Unscheduled Banks. RBI includes banks only which fulfills the criteria regulated under the section 42 (60) of the act. Only a limited cooperative bank comes under the scheduled commercial banks. For the purpose of evaluation of banks, the Reserve bank of India has classified banks in to public sector banks, new private sector banks and foreign banks. The commercial
banking structure of India is exhibited in the figure 3.1 which explains how the banking industry operates.

![Figure 3.1 Structure of Indian Banking System](source: Bhole and Mahakud, 2009)

3.3 BACKGROUND OF FINANCIAL INCLUSION

During 1960’s, the Government of India and the Reserve bank of India have taken a lot of initiatives likely nationalization of banks, targeting priority sector, lending at economical rate to the low income people and starting up of the lead bank scheme. Nonetheless the comprehensive approach in the 1970’s and
1980’s were more focused on the credit requirements of the specific sectors. During the 1990’s and 2000’s a strong and well-organized banking system was created. Initiatives taken by the banks can be classified into three phases. The first phase during the late 1970’s and 1980’s the concentration was most towards channeling the credit to the disadvantaged sectors of the population. An additional focus was paid on negligible sections of the population as well.

During the 1990’s and until March 2005 of the second phase, the attention was towards the strengthening the financial system. Financial inclusion in this phase was undergone with newer models such as the introduction of the SHG-bank linkage program and Kisan Credit Card (KCC) system mainly for lending credit to farmers.

During April 2005 of the last phase, financial inclusion was clearly made as a policy objective. The financial inclusion drive was focused on providing basic savings bank account through ‘No frill’ accounts. It is for this purpose the National Bank for Agriculture and Rural Development (NABARD) was started in 1982 mainly with the agenda of assisting the banks that were providing credit to the agriculture. Regional Rural Banks (RRBs) were started in 1975 to focus on the need of credit facilities for the rural people.

Economic reforms in our country started in 1990’s, which led to the fast growth drive in the country. Self Help Group (SHG) – bank linkage program was started by NABARD in 1992, with adequate guidelines from the Reserve bank of India, to provide ‘door step’ banking services. Banks provide resources in terms of credit while the NGOs act as intermediaries in taking to the end customer. The objective of bringing the financially excluded people gained importance during 2005-06. In the RBI annual policy statement of the year 2005-06, the term ‘financial inclusion’ was clearly used for the first time.
In the recent years wide-range of strategies for financial inclusion in India was included. Strategies such as encouraging penetration of banking services in to unbanked and rural areas and motivating agents and intermediaries such as Non-Governmental Organization NGOs, Microfinance Institutions (MFI) and Business Correspondents (BCs) was done. State Level Banking Committee (SLBC), District Consultative Committee (DCC), local institutions such as Co-operatives and Regional Rural Banks (RRBs) of the already existing committee to be focused on
financial inclusion by means of decentralized strategy. Adopting new technology for the progress of financial inclusion and directing banks to open a basic account such as ‘no frill’ account are some of the strategies that was included.

Besides, State Level Banking Committee (SLBC) identifies one or more districts for achieving 100 percentage of financial inclusion. The accountability is provided to the banks to cater the bank account to all those who desired to have a bank account by apportioning the villages to the various banks in the respective districts. In January 2006, the Reserve bank of India has allowed banks to exploit the services of NGO’s (Non-Governmental Organization) Self-Help Groups (SHGs), MFI's (Micro Finance Institutions) as intermediaries for providing the basic financial services through the help of business facilitator (BF) and business correspondent (BC) models. In April 2008, banks were officially allowed to absorb retired bank employees, ex-service men and government employees to act as BCs. Banks were also attempting to bring in the service of postal department by using their enormous network as BCs, which would have a great impact in the outreach. Upon the revised guidelines in April 2007, the priority sector of banking was advanced to employment demanding factors such as agriculture, small enterprises, retail trade, educational loans, micro finance and low cost housing.

The government of India had announced a slew of measures in the union of budget 2007-2008, based on the interim report result and the recommendation by the committee on financial inclusion. Based on the suggestions two funds were created namely financial inclusion fund and financial inclusion technology fund with an amount of Rs. 500 Crore each with NABARD looking for the costs of development and technology developments as suggested.
Based on the reports submitted the committee on financial inclusion has suggested that the state government should make payments under National Rural Employment Guarantee Scheme and the social security payments should be made to the beneficiary through technology based solutions. Also the Reserve bank of India had recommended the state governments to make all the government payments by using the Information and Communication Technology (ICT). Figure 3.3 traces the origin of financial inclusion which is exhibited as follows:

**Figure 3.3  Origin of Financial Inclusion**

(Source: Naik and Priya, 2013)
During the union budget of 2008-09, the government of India has proclaimed that banks should grip the idea of financial inclusion. Consequently the Reserve bank of India in April 2008 has recommended all Scheduled Commercial Banks (SCBs) to fulfill the credit requirements of the SHG people which include revenue generation activities, social needs of the people like housing, education, marriage, and debt swapping.

3.4 MEANING OF FINANCIAL INCLUSION

“Financial Inclusion is defined as providing the basic banking services and products to the weak and defenseless group of population at a reasonable cost” (Rangarajan, 2008).

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stephen P. Sinclair</td>
<td>Financial exclusion means the inability to access necessary financial services in a suitable form. Exclusion can be a outcome of problems with access, conditions, prices, marketing or self-exclusion in response to bad experiences or wrong perceptions.</td>
<td>Basic banking services like money transfer, credit insurance, and savings for a longer time.</td>
</tr>
<tr>
<td>(2001)</td>
<td>------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>World Bank (2008)</td>
<td>Access refers to absence of price and non-price barriers in the use of financial services</td>
<td>Some of the indicators are deposit, credit, payments, and insurance</td>
</tr>
</tbody>
</table>

(Source: Report on currency and finance, 2007)
Over the years, several definitions of financial inclusion or exclusion have evolved. Table 3.1 listed below describes definitions of financial inclusion or exclusion.

The figure3.4 expounds the very important mile stones on road, to achieve the objective of financial inclusion in India.

Figure 3.4 Important Milestones on Road to Financial Inclusion in India

3.5 OBJECTIVES OF FINANCIAL INCLUSION

Banking services to the rural and semi urban was the important agenda of financial inclusion due to which commercial banks was nationalized by the Reserve bank of India. Some of the objectives of financial inclusion are explained below:

a. Economic Objectives

Every society in a country is divided in to many sections based on the income, occupation, religion, region and caste. Financial inclusion thus plays a crucial role in embracing all the sections of the society. Thus financial inclusion helps in equitable growth of the economy, reducing difference in income, savings, and aid in growth for the underdeveloped and developing countries.

b. Mobilization of Savings

With the help of financial inclusion poor sections of the society are equipped with the basic banking services. This helps in increase the savings of the people which can be efficiently utilized for capital formation and increase in per capital income of the economy.

c. Larger Market

To serve the requirements and need of the people, a great necessity for bigger market of the financial system is essential which helps in creating a space for new players in the banking sector.

d. Societal Objective

Eradicating poverty is the core objective of the financial inclusion, there by linking the poor section of the people with their means of support by delivering banking services from the financial sector.
e. Stable Livelihood

Once the disadvantaged group of people gets connected to the banking services, there is more possibility of a small trade or business or increase in savings, in which it can be used for sustaining their livelihood.

f. Political Objectives

Political objective of the financial inclusion can be attained with the extensive inclusion of the lower income people and proper guidance to the government programs. The access to formal financial system is elucidated in figure 3.5

![Figure 3.5 Structure of Financial Products and Services in Financial Inclusion](source.png)

(Source: Report of the Reserve bank of India, on Financial Inclusion, 2009)
3.6 MAGNITUDES OF FINANCIAL EXCLUSION

The barriers in financial inclusion include physical access; high charges, penalties and nature of financial products are some of the important reasons for financial exclusion. Other than the supply side reasons, demand side factors also has big impact on financial inclusion. A huge population below the poverty line may lead to a lower demand as the poor household may not have sufficient savings. Similarly investment may be low due as there is no demand for credit from banks and other banking institutions. Yet as the poverty level decreases and households salary increases there will be higher demand for the financial services.

3.6.1 Factors Affecting Access to Financial Services

There are many factors which affect the access of financial services. Some of them are listed as below:

**Gender Issues:** Generally women have limited access to credit as they couldn’t hold title to assets or they must take male gender approval to borrow.

**Age Factor:** Mostly the banking and other financial institutions focus only the middle of the economically active people, there by suitable products for elder or younger population remains limited.

**Legal Identity:** In many of the rural areas there is absence of legal identity documents and often tribal people, ethnic minorities, refugees and migrant workers are often excluded from the financial services

**Limited Literacy:** Rural population mostly lack financial literacy like basic mathematical skills and shortage of understanding often limit demand for financial services

**Place of Living:** Lack of transportation in the rural areas and other factors like density of population, mobility of the population also will be a major hindrance for accessing the financial services.
**Psychological and Cultural barriers:** Psychology of the rural people that bank is meant only for higher income group still persists in the minds of rural population. Nevertheless cultural and religious barriers also distress the access to financial services. Figure 3.6 explicates the barriers of financial inclusion.

![Figure 3.6 Barriers of Financial Inclusion](image)

**Social Security Payments:** Wherever the social security payment system is disconnected to the banking sector, financial exclusion is greater.

**Bank Charges:** Even though the transaction cost is nil, there are other hidden bank charges that affect the lower income household.
Terms and Conditions: Rigid terms and conditions in accessing the various financial products such as minimum balance requirement make the people to in access to such financial products

Level of Income: Financial status of the people is a big barrier in accessing the financial services. Financial services should be custom made to suit the desires of the poor people.

Type of Occupation: Occupation of the rural people and many banks tend to refuse the loan request based on the type of the occupation of the bank customers.

Attractiveness of the Product: Attractiveness of the various financial products of the banks provided by the banks will also play a major role in financial inclusion.
(Source: world Bank, 2008 and Asian Development bank, 2007)

3.7 VARIOUS SCHEMES OF FINANCIAL INCLUSION

As a proactive measure RBI has introduced various schemes on the agenda of financial inclusion. Following are some of the schemes initiated by the Reserve bank of India.

3.7.1 No Frill Account

In this regard, the Reserve Bank of India (RBI) in its annual policy statement for the year 2005-06, has emphasized the need of financial inclusion as large section of the population are out of the purview of formal financial system. Thus RBI had initiated a basic banking account also known as “No frill account” where it requires a zero or less minimum balance in the bank account. Thereby it attracts a larger population in the rural area to access the basic banking services.
In order to increase the frequency of transaction in “No frills account”, RBI has suggested all the banks to afford a small dose of Over Draft (OD) in bank account as this will entice them to effectively use the bank account. This kind of providing a basic or free savings account was quite successful internationally in accessing the banking services particularly to the disadvantaged group of people. Such type of bank accounts, exist in various names in various other countries as well.

3.7.2 General Purpose Credit Card (GCC)

Credit card in the urban area enables the households to meet their credit need and also helps the customers to withdraw cash from their card. But there is no provision in the rural areas as the point of sales or outlets are very limited.

![Figure 3.7 Various Initiatives by Reserve Bank of India](image-url)
In order to overcome this problem, RBI has instructed banks to offer a General purpose credit card at all the semi urban and rural bank branches. This scheme functions based on the system of revolving credit. GCC holder is allowed to withdraw cash from their credit card within the limit set by the bank branch. Nevertheless, the total credit extended for a person under this scheme cannot surpass Rs.25,000. The figure 3.7 explains the various efforts taken by Reserve Bank of India towards fulfilling the objective of financial inclusion.

3.7.3 Relaxation of KYC Norms

There was a great difficulty faced by the rural and semi urban households in opening a bank account especially people in the low income groups. Therefore in order to overcome the problem, Know Your Customer (KYC) procedure of opening a bank account was made easier and simple for the customers. For such kind of customers the balance in their account should not surpass Rs.50,000 and credit limit not above Rs.100,000.

3.7.4 Technological Innovations

(a) CBS, Smart Cards, Biometric Cards

Government has come with technology-enabled projects, like the Unique Identification Number (UID) project, Core banking solutions (CBS) in Regional rural banks (RRBs) and cooperative credit institutions, mobile banking, hand-held devices, smart cards, bio-metric cards, routing of payment under government social schemes through banks and microfinance institutions which could transform financial inclusion system into a profitable business model.

(b) IT-Enabled Kisan Credit Card

Kisan Credit Card (KCC) is a scheme started taking in to the concern of
farmers in our country. The objective of this scheme is delivering sufficient financial assistance to the needy farmers by granting them a short term credit. Farmers can withdraw money from any of the point of sale in the semi urban and rural areas.

(c) Mobile Banking

Banking through mobile phones would be the most attractive and simple method of banking. Reserve bank of India has issued separate guidelines in December 2009 for easy operation of mobile banking. The limit set for transacting in mobile banking is scaled up to Rs, 50,000. Now a days mobile applications installed in smart phones are found to be easy way of doing a bank transaction.

3.8 BUSINESS MODELS OF FINANCIAL INCLUSION

Reserve bank of India has highlighted the importance of the emerging profitable business models and the need of adopting these business model in all banks and financial institutions for the sustainable growth of financial inclusion. Some of the business models of financial inclusion are as follows:

3.8.1 Self Help Group (SHG) - Bank Linkage Model

Reserve bank of India has initiated an early step of financial inclusion by launching a pilot project on SHG-Bank linkage in February 1992 by National Bank for Agriculture and Rural Development (NABARD). This early attempt proved as an asset to the financial inclusion program by reducing poverty through capacity building and women empowerment of the rural population. The Figure 3.8 explains the various kinds of business model towards financial inclusion.

The SHG-Bank linkage program provides an opportunity to hold all the vast section of the poor people to participate in the development process. Further benefit of SHG-Bank linkage program it is very cost effective and it
has opened has an avenue for the rural people to channel their savings into investment. The initiative that has been taken in 1992 to enlarge the financial services and other products to the low income group and disadvantaged people through informal Self Help Groups (SHGs) has reached a greater milestone in financial inclusion initiative.

![Financial Inclusion Business Model Diagram](image)

**Figure 3.8 Business Models of Financial Inclusion**

### 3.8.2 Branchless Banking through Business Correspondent (BC) Model

For promotion of financial inclusion among the rural people, the Reserve bank of India has initiated a new strategy called as Business Correspondent (BC)
Model. In this new strategy bank can collaborate with third party intermediary to deliver financial products and services. This strategy stress on usage of Information and Communication Technology (ICT) to provide banking facilities through Business Correspondent (BC), who uses a small hand-held device which is connected to the core banking system. Under the BC Model, retired government or bank employees or teachers, or ex-servicemen can act as BCs.

### 3.8.3 Business Facilitator Model

This model uses intermediaries for facilitating the banking operation such as NGOs or farmers' Clubs, cooperatives, community based organizations, information technology enabled rural outlets of corporate entities, post offices, insurance agents, well-functioning Panchayats. Thus this model includes identifying borrowers, preliminary processing of loan activities, background verification of the documents, educating and creating awareness of banking products, counseling of financial planning to the customers, submission of bank account application and other promotion activities of bank.

### 3.8.4 Financing Joint Liability Groups (JLG) Model

Joint Liability Group scheme is another initiative taken by the Reserve bank of India targeting the mid-segment customers which includes small farmers, marginal farmers, tenant farmers, so that there is less dependence for informal sources of credit. NABARD had issued a detailed guidelines on operation of JLG to banks and fosters the banks for better financing of JLGs to the mid-segment customers.

### 3.8.5 Microfinance Institutions (MFI)-Bank Linkage Model

This model focuses on financing of micro finance institutions and thereby
lending to SHG’s and other small borrowers. MFI play a greater role in executing financial inclusion as they provide the financial services to the large sections of the society. The other advantage of this model is that it reaches the remote area of the rural population.

3.8.6 Information and Communication Technology (ICT) -Enabled Mobile Banking Model

Based on the guidelines of the RBI, scheduled commercial banks have framed a model based on Information and Communication technology (ICT) for accessing financial services to all villages with population beyond 2,000. With the progressment of this model banks have ICT-enabled Mobile Banking Vans (MBV) which would enable an economical banking services thereby spreading the banking services to the villages and unbanked areas of population.

3.9 BASIC SAVINGS BANK DEPOSIT ACCOUNT (BSBDA)

3.9.1 Origin of Basic Savings Bank Deposit Account

The origin of financial inclusion was started due to the initialization of co-operative movement in the year 1904. Since then, it got momentum during 1969 when 14 major commercial banks were nationalized and the concept of Lead bank scheme started in 1970’s soon after the nationalization of bank. Regional rural bank was started as part of the development of the rural banking ecosystem.

Financial inclusion gained impulse in November 2005, when banks were asked to provide a basic banking ‘No-frill’ accounts with low or zero balances as charges to expedite the process of providing a basic account to underprivileged section of the society. So that it would make bank accounts access to large section of people. In order to make the basic banking a more common and constant across
the various banking system, it was decided by the Reserve bank of India to change the nomenclature of ‘No frill’ account and the guidelines on opening of basic banking ‘No frill’ account.

![Diagram showing the functioning of BSBDA in Rural Area](Source: Developed by the Researcher)

Figure 3.9 Functioning of BSBDA in Rural Area
(Source: Developed by the Researcher)

Accordingly in the monetary policy statement for the year 2012-13, announced on April 17, 2012, all the “No Frill Account” has been advised to change
under the nomenclature of “Basic Savings Bank Deposit Account” (BSBDA). In 2012-13, monetary policy statement of RBI, it was proclaimed that all the existing “No Frill Account” should be changed to ‘Basic Savings Bank Deposit Account’ (BSBDA) for avoiding various nomenclature of the bank account. In August 2014, Government of India promoted a special scheme called as "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" which is a national goal for financial inclusion. This national project has a determined goal of ensuring all the households in the country should have a bank account and access to all the financial services provided by the banks. The basic functioning of BSBDA in rural area is described in the Figure 3.9

3.9.2 Facilities offered in Basic Savings Bank Deposit Account

The main objective of introducing BSBDA is one of the important efforts of Reserve bank of India for attaining financial inclusion objectives. A Basic Savings Bank Deposit Account (BSBDA) will provide the following basic facilities to all their account holders,

a) The “Basic Savings Bank Deposit Account” should be measured as a normal saving banking account provided to all

b) BSBDA doesn’t require any minimum balance in their bank account.

c) The services provided in BSBDA will comprise deposit and withdrawal of cash or at Automatic Teller Machine (ATM’s). Receipt or credit of money can be made by electronic channels or by means of deposit or collection of cheques drawn by Central/State government agencies and departments

d) Basic savings bank deposit account offers ATM card facility or ATM -Debit card facility to all

e) ATM card facility or ATM -Debit card facility bank will be offered without
any cost to the customers. Moreover for non-operation or non-activation of Basic savings bank deposit account there is nil charges for the bank customers

f) The Basic savings bank deposit account would be subjected to RBI instructions on Know Your Customer (KYC) and other regulations related to opening of bank account will change over a period of time

g) Account holders of Basic savings bank deposit account are not allowed to open any other savings account in the bank.

h) Customers who already possesses a savings account are asked to close the bank account within 30 days from the incept of bank account opened

i) A customer of Basic savings bank deposit account can make a term or fixed deposit or a recurring deposit in the bank where one holds Basic savings bank deposit account

j) Total of all withdrawal transactions and fund transfers in a month shouldn’t go beyond Rs.10,000

k) Balance in the bank account at any required time shouldn’t go beyond Rs. 50,000

l) There is no capping on the number of deposits that can be made in a month; bank customers will be allowed four withdrawals in a month, including ATM withdrawals.

Banks are allowed to provide facilities free of charge. But however bank can provide more facilities which are left according to the discretion of the bank. Nonetheless, banks can provide additional services without any cost or come with a new price structure on practical and obvious manner with advanced notification to customers. Table 3.2 reveals the progress of financial inclusion by the end of March, 2016.

Thus from the Table 3.2 it explains that the number of banking outlets in
villages through branch mode and branchless mode is on the increase. The number
of Basic savings bank deposit account opened by business correspondent and in the
bank branch is also showing an increasing trend over a period of years. Similarly the
overdraft (OD) facility provided in the Basic savings bank deposit account is also
increased. Thus the overall reports indicate a positive direction towards the growth
of financial inclusion.

Table 3.2
Progress Report on Financial Inclusion Plan

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Banking Outlets in Villages – Branches</td>
<td>33,378</td>
<td>49,571</td>
<td>51,830</td>
</tr>
<tr>
<td>Banking Outlets in Villages – Branchless Mode</td>
<td>34,316</td>
<td>504,142</td>
<td>534,477</td>
</tr>
<tr>
<td>Banking Outlets in Villages – Total</td>
<td>67,694</td>
<td>553,713</td>
<td>586,307</td>
</tr>
<tr>
<td>Urban Locations covered through BCs</td>
<td>447</td>
<td>96,847</td>
<td>102,552</td>
</tr>
<tr>
<td>BSBDA-Through branches (No. in million)</td>
<td>60</td>
<td>210</td>
<td>238</td>
</tr>
<tr>
<td>BSBDA-Through BCs (No. in million)</td>
<td>13</td>
<td>188</td>
<td>231</td>
</tr>
<tr>
<td>BSBDA-Total (No. in million)</td>
<td>73</td>
<td>398</td>
<td>469</td>
</tr>
<tr>
<td>OD facility availed in BSBDAs (No. in million)</td>
<td>0.2</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>KCCs -Total (No. in million)</td>
<td>24</td>
<td>43</td>
<td>47</td>
</tr>
<tr>
<td>GCC-Total (No. in million)</td>
<td>1</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>ICT-A/Cs-BC-Total Transactions (No. in million)</td>
<td>26.5</td>
<td>477.0</td>
<td>826.8</td>
</tr>
</tbody>
</table>

(Source: RBI, Annual report 2016)
**3.10 PRADHAN MANTRI JAN-DHAN YOJANA**

In August 2014, Government of India promoted a special scheme called as "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" which is a national goal for financial inclusion. This national project has a determined goal of ensuring all the households in the country should have a bank account and access to all the financial services provided by the banks. This issue was addressed by the honorable prime minister stating that all those who are left out the banking system should be included by participating in opening this bank account.

Pradhan Mantri Jan-Dhan Yojna (PMJDY)”, was launched on the 28th of August 2014, under the direct supervision of the Indian Prime Minister and the Department of Financial Services, Ministry of Finance. The objective of this mission is to add over 70 million families in to the banking system by opening a savings account. The first step is to provide a RuPay debit card with a Rs. 1, 00,000/-accident coverage pack for all those who newly opened their bank account under this scheme. In the mean while the plan is also to cover the account holders with insurance and pension products. About 60 percentage of the population in India do not have a bank account. The urban population of financially excluded category mainly comprises of low income groups like urban laborers, slum dwellers of the cities and socially excluded communities.

**3.10.1 Implementation of PMJDY**

**Phase-I of PMJDY**

During the starting phase of this project from August 15, 2014 to August 14, 2015 which foresees the following:

(a) All the households should have access to Basic savings bank deposit account and
banking facilities afforded with a bank branch or a fixed point Business Correspondent (BC)

(b) All the households in the country should have RuPay Debit Card with Rs. 1 lakh inbuilt accident insurance covers.

(c) The bank account provided to the households will be provided Overdraft facility of Rs. 5000 if the bank account was satisfactorily operated for 6 months.

(d) Direct Benefit Transfer (DBT) facility of several government schemes will be credited to the bank account of the beneficiaries

3.10.2 Phase-II of PMJDY

The second Phase of PMJDY started from August 15, 2015 to August 14, 2018 which centers on the following:

Figure 3.10 Features and Basic Pillars of PMJDY

(Source: PMJDY, 2016)
(a) Micro insurance will be afforded to the households.
(b) Swavlamban—an unorganized sector pension scheme is to be recommended through the Business Correspondents.
(c) Households who are dwelling in hilly, tribal and remote areas will be included in this phase. Figure 3.10 explains the features and basic pillars of PMJDY.
(d) This phase would also cover the left out adults and students in each and every household.

3.10.3 Role of Technology in Financial Inclusion

Technology can play a vital role in providing banking services to the low income and unbanked population by reducing the operating cost. Therefore having the right business model and right technology at place will be more viable to outreach the banking services and products in the rural area.

Mobile phone based services are transforming the micro finance type services in many of the countries. Mobile banking payment is largely used for checking the balance in the bank account, fund transfer, payment done through mobile phone device. Generally mobile payment falls in to four classifications: a) mobile banking helps the user to find the balance checks, fund transfers, bill payments b) remote purchase c) person to person transfers d) Point of Sale made using smart phone to pay for goods at many retail locations. However all depends on the policy development made by the government of India and quality of infrastructure provided in the rural areas.

3.11 PROS AND CONS OF VARIOUS TECHNOLOGIES

The table listed below explains pros and cons of each of the technologies selected.
### Table 3.3
**Merits and Demerits of Technologies**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Connectivity</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Short Message Service (SMS)</td>
<td>It is more easier and more popular medium to communicate</td>
<td>Still it is un trust worthy as the delivery of the message is not guaranteed; requires user to remember codes/keywords; many SMS based transaction can cause user resistance</td>
</tr>
<tr>
<td>2</td>
<td>Code Division Multiple Access (CDMA)</td>
<td>Helps to build advanced features; user interface is well designed and easy to use; can integrate easily with e-commerce scenarios</td>
<td>GPRS/CDMA still not popular; GPRS requires separate hardware; CDMA requires a particular skillset which is not commonly available</td>
</tr>
<tr>
<td>3</td>
<td>Handset technologies: Subscriber Identity Module (SIM) Tool kit</td>
<td>Provide application as and when people buys a new SIM card; Telecom operator is very closely connected with the mobile banking project and therefore delivery of financial services is easy</td>
<td>Requires operator help in replacing existing SIM cards; Possibility lock in for banks; technology may not be inter-opera table in many scenarios.</td>
</tr>
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(Continued)

<table>
<thead>
<tr>
<th></th>
<th>Mobile application development</th>
<th>Operator is very independent; has the ability to design and develop more features and user interface</th>
<th>Major problem is a data concern and there is a rare development of skilled people for CDMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Emerging technologies: Near field communication (NFC)</td>
<td>It is very simple and easy to use; and experience very similar as to that of credit card usage</td>
<td>Still in the beginning stage and mobile phones are still expensive</td>
</tr>
<tr>
<td>5</td>
<td>Mobile phone as a device</td>
<td>One great advantage it is available 24/7 with the customer and it is always connected. It can deliver banking services independent of banks</td>
<td>Not all mobiles built for mobile transactions. PIN based authentication, requires remembering password or PIN numbers which is a cause of concern</td>
</tr>
</tbody>
</table>

(Source: Asian Development Bank, 2007)

Various kinds of technologies have been used successfully in many countries for the progress and growth of financial inclusion. Recently government has started to use smart card or mobile technology. Biometric method of technology is also in the increase usage in the past years. Recent development in the technology side assisted the banks for better provision of credit at reasonable price to the vast group of the society.
3.12 RESEARCH MODEL FRAMEWORK

Research model framework of the study gives an overview of the theories related to Utilization of Basic Savings Bank Deposit Account. The theoretical justification of the proposed research model on ‘Utilization of Basic Savings Bank Deposit Account’ dimensions and their relevance are explained in detail as below:

3.12.1 Financial Literacy

Financial literacy is acquaintance of simple economic and financial concepts as well as the ability to custom that knowledge and other financial skills to achieve the resources effectively. It makes the people to accomplish the money effectively with respect to earning, spending, saving, borrowing and investing (M.Cohen, 2011).

Financial literacy refers to knowledge about finance. In other words, it acts as a source of information by providing knowledge to people who are unaware of financial products and services. People attain financial literacy through a process of financial education (Sheetal, 2013). Financial literacy programs authorize individuals and families to take sound financial decisions. (Ranjana, 2014).

It is the knowledge and understanding of the monetary concepts which includes earning, spending, saving, budgeting, borrowing, investing and applying it with confidence by Servon and Kaster (2008). Financial literacy is the ability to make informed judgments and effective decisions in managing the money. It is the ability to read, examine, manage and communicate about the personal financial conditions (Sandra, 2010).

Financial literacy is well-defined as the individual’s capability to obtain, understand, and appraise the relevant information required to make decisions with
an awareness of the likely financial significances (McKenzie, 2009). An individual’s ability to process economic information and make prudent decision financial planning, wealth, debt and pensions. (Lusardi, 2010). It is continuous and there is nothing such as faultlessly financially literate and all the individuals need for learning on personal finance. Income or wealth is not good indicators of financial literacy and individual with less income or wealth need not be less financially literate (Jennifer, 2012).

It can be meaningfully related to formal banking and borrowing and negatively linked to the use of informal financial sources which includes borrowings. Person’s with sophisticated financial literacy likely to report greater unspent income and less financial literacy to experience lower levels spending; (Leora, 2011) Financial literacy is simple concepts of safe and protected savings, budgeting and judicious borrowing (Monique, 2011).

3.12.2 Bank Promotion

Direct marketing is advised to reduce waiting time of the customer and to increase satisfaction. Unpredictable behavior of employees, doubtful look of the staff, limited knowledge of banking products, undynamic promotional methods can block the banking promotion and business in the rural area (Tlebbar, 1988). Embracing of personal selling as a strategy for marketing promotion in banks, the banking business can progress significantly (Mehta, 2010).

Well- designed promotional strategy is very essential to endorse banking services successfully. All type of media engaged by banks to promote their services. Direct marketing and personal selling are implemented by banks as two techniques of promotion by Gupta and Mittal (2008). For successful marketing and to make it
more efficient, the banks have to recognize the customer needs by designing new financial product, to suit the need of customer.

Personal selling or direct contact is one of the utmost active tools in bank promotion, as it educates the probable rural customers in to the bargain (subbarao, 1988). For successful marketing and to make the marketing approach more effective, designing suitable product to the need of the customer is essential (Dixit, 2004). Product based approach, bank led approach, regulatory approach, technology based approach, knowledge based approach, are the various approaches embraced by the government in order to push financial inclusion to next level by Sonu Garg and Parul Agarwal (2014).

Promotional mix obtainable to bankers for the marketing of services such as direct marketing, public relations, social banking and customer meets. (Chidambaram, 1994). Creating effective communication with customers is the indispensable aspect in service marketing. Providing information, creating awareness, changing attitude, building company image, enforcing brand loyalty these elements can be effective communication in service marketing by Kola and Akinyele (2010).

3.12.3 Bank Services

Banking service being a service for the common people should serve the common man in order to satisfy him. An improved banking service through amicable relationship will enrich customer acquisition and retention leading to a longer term business relationship (Tamilarasan, 2008). Making banking more inclusive through expanding the coverage of banking services by reaching the vast
unbanked and under banked population of the country (Srinivasa rao, 2008).

Monthly income of the customers and interest towards financial services was found to significantly associate. Based on the preference by customers on bank products or services, bank account ranks first, followed by financial education and small personal loan. Customers have moderate knowledge in banking products, bank account features and other financial services which hinders the full coverage of banking services by Selvakumar et al. (2015)

It is very significant to organize awareness camps in the interior areas of the rural population so that they are well-versed about the many banking services (Aarti Katioch, 2010). Holistic method on constructing awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit is necessary. Explicit strategies to enlarge the outreach the banking services will benefit to encourage financial inclusion (Veeraselvam, 2011)

Adequate provisions must be provided in the business model through adoption of new technology that helps the poor to access banking services by Neha and Pawan Kumar (2013). Financial literacy among the rural population and kindle the need for banking services is so far to gather momentum (Deepali, 2011). On the demand side, the big blockades are the absence of awareness about financial services and products, inadequate literacy, unfavorable attitude of the bank to the customers also concludes the demand for financial services (Brinda, 2012)

Access to suitable financial services can increase the day to day management of finance. All inclusive financial system promotes effectiveness and welfare by facilitating a whole range of financial services (Sarma, 2008). Li et al. (1998) argues that reaching out the banking services to rural and poor people have
decreased the inequality and increased the income of the people nearly about 80 percent. Increase in accessibility of finance shows a greater role in reducing the dissimilarity and hikes the income of the poor people. There is a direct linkage between financial depth, growth and poverty alleviation. Greater the financial depths lower the inequality and increase in the income of the disadvantaged a people.

New ideas and technology have born because of the great extent of financial services are needed for the low income and poor people (King and Levine, 1993). Supply side of the banking services improves banking activity. Socio economic factor and environment of a region are very crucial in improving the banking habit of the people by Nitin Kumar (2013).

Banking services provided by the banks have outreached to the majority of the population in developed countries however when compared with the developing countries accessibility of the financial services by the households have reached only 20 percent of the population. Poor people require flexible financial products and services, and requirement of high minimum balance act as a barrier in opening a bank account by Peachy and Roe (2006). Access to bank account will determine the usage of financial services by the households Littlefield et al. (2006). Customer’s poor awareness of banking products and services considerably affect the accessibility of basic financial services by Praveet Kumar and Arindham (2011).

3.12.4 Savings

An access to bank account will enable an individual from a poor household to perform better financial functions such as increase savings from his income, accessing credit, insurance, pensions, making loan or premium payment
through the availability of bank account. The extension of banking services to the village and poor people have taken a hit due to lack of demand in the last decade by Mohan (2006).

Accessibility of low cost savings account helps the micro enterprises in Kenya to increase their savings, investment and maintain their expenditure for women but not for men. There is a savings constraint among daily wage people, and by operating low cost savings account, it enabled the women entrepreneurs to cope up with any health shocks by Dupas and Robinson (2010).

3.12.5 Bank Facilities

Several success factors are vital for a good and well decisive inclusion of individuals in the utilization of banking facilities and services. Having access to financial services requires one to be well familiar about the services at pale. There is a high necessity for the accessibility of basic banking services. Non-bank institutions like building societies have to be readily available as they are the bankers of rural occupants by Tagore et al. (2006).

Provision of overdraft facility provides a ready source of funding to the customers who is there by inducted to open such accounts. Adopting technology based solutions and low cost delivery mechanism will help to decrease the cost of baking services and make model more sustainable (Usha thorat, 2006). Infrastructure and quality of the state level banking institutions are the major cause for significant growth by Saibal Gosh (2011).

There are different facilities afforded by the bank to the rural customers. Various types of facilities include overdraft, Cheque book facility, ATM debit and credit card facility, Locker facility, Fixed deposit facility are provided by the bank.
Balance enquiry is the most preferred facility by the customers of rural population amongst the other facilities offered by Parmar et al. (2013)

3.12.6 Satisfaction

Factors influencing satisfaction are Service quality, ambience or hygiene, client participation or involvement, accessibility and financial. It was identified service quality and ambience or hygiene is the most significant factors that are affecting customer satisfaction. Thus by improving the banking services to enhance the overall satisfaction can be achieved by Gupta and Dev (2012). Trust, nearness, courtesy, and kindness of bank staff played a huge impact on customer satisfaction with banking services in Slovenia by Beloglavec and Pisnik (2013). Employee behavior of the banking staff towards its customers was very important in increasing the quality of bank services. Reliability and innovation are the other factors in impacting the service quality on customer satisfaction. Esmailpouri et al. (2012)

Factors that can influence on customer satisfaction are reputation of the bank, promotion and attributes of bank; value added services, Branch reputation and Schemes respectively (Mahalakshmi and Saravanaraj, 2011). Determinants that are influencing the bank customers included convenience of the customer, cost factor, facility rendered to customers, and other general factors. Customer’s expectation and actual services should be continuously monitored to measure the customer satisfaction (Shiralshetti and Bagewadi (2011).

Customer satisfaction has been carried out in six P’s of bank marketing mix such as product, place, promotion, people, and process from customer’s perspective. The conception of customer satisfaction in rural banking includes all types of banking services, deposit and loan scheme, bank assistance, interest rates, branch location, facilities, employee’s attitude and behavior, promotional tools and
documentary formalities (Sharma and Kaur, 2004). Welcoming the customer with smile, knowledge about banking products, helping inclination, listening to the customers query, all ensures customer satisfaction (Arora and Malhotra, 2000).

Physical service, service enrichment, facility receiving services affect customer satisfaction, but other factors like technical requirements and customer complaints does not distress customer satisfaction. Word of mouth by the bank customers have found to be having a high correlation with customer satisfaction, which indicates that satisfied customers has a higher repurchase intention. (Burgess, Robin and Kaboli, Fathi and Azizi (2003)

3.12.7 Borrowings

A large part of the population especially low-income people has very little access to banking. They are depending on informal sources such as money lenders and others at a higher cost of borrowing by Srikanth (2013). Small and medium enterprises borrow money from friends and relatives rather than a formal banking system. This implies that with the increase in age household requires. As the household head age increases in age, the demand for credit increases, and their financial activities are well developed and their family responsibility is greater. Demand for loans significantly associated with the increase in household size (Ageba and Amha, 2006).

Education, age, number of dependents, assets, credit history and secured land rights have a significant impact on the formal and informal sources of borrowings. Additionally, if there is an extra adult in the family, the scope of borrowing widens (Barslund and Tarp, 2008). Households who have borrowed money from the bank in the past were willing to demand loan again as compared with who had never borrowed. The most determinates of willingness to borrow were
gender, place, community and amount of agricultural land (Gockel, 2008).

Expanding geography and demographic outreach poses a great challenge even though a lot of initiatives and mechanisms are in progress. Financial literacy and awareness of banking facilities, borrowings and products are a foremost threat in usage of banking services (Radhika and Gosh, 2013). Education and location of the household are positively and significantly associated to the demand of a loan. Also, larger families, household head who are employed and those who are linked to the formal banking system are more possibly to request a loan (Al-Hussainy et al. 2008).

All the households, rural, village and borrowers do not do any banking and are neglected by the banks unless compelled by the policy. Formal financial services will be provided to the deprived people only after banks were compelled by the government. Households, rural, village and poor borrowers were not bankable and are deserted by the banks unless compelled by the policy (Pande, 2005).

Smaller farmers with less landholding are comparatively less benefited than the bigger landholdings. Informal lending is widely practiced by marginal farming households followed by small and commercial households which indicate that marginal farmers are denied of formal credit. Average time taken to issue a loan is as high as 33 weeks in commercial banks. Such time consuming process and hectic process makes it difficult for households to rely on informal finance (Basu 2005 and 2006).

Lack of teaching by micro finance institutions (MFI) is also a major reason for less numbers of women borrowers from MFI by Sania Mahmood (2011).
3.12.8 Overall Usage

Remittance to the people has resulted in non-usage of bank account by the account holders as they only just withdraw the money from the account. Psychological and cultural barriers inhibit people from using banks. A traditional banking transaction happens at brick and mortal method of banking branches. But more use of banks could take place if door step banking is provided to the people especially to the rural households and individuals where no bank branches are available at an affordable distance by Kempson (2006).

Economic viability and social acceptability are the two pillars for the sustainability of the system. Execution of Financial Inclusion does not end with opening No-Frills accounts (Chandrakumar, 2009). Access does not mean usage, and as such, opening bank account without accompanying training or marketing may simply result in additional costs for the bank without any benefits to the community by Minakshi Ramji (2009).

The success of the financial inclusion should be measured by not only opening the account but actually by the real usage and operation and quality of the opened no frill accounts. The study has further added that the first step to achieve 100% financial inclusion is by creating awareness of the drive and providing financial literacy among people Suresh Bihari (2011).

The barriers have become big both from the demand side and supply side. Demand factors are illiteracy, and unwillingness. Supply side barriers are difficult procedures, unsuitable products, staff attitude all these make the barriers a little wider Agrawal (2008)
3.13 SUMMARY

Thus the various topics discussed in this chapter explains the conceptual framework of financial inclusion which includes the meaning, definition, background of financial inclusion and several aspects that are influencing the access of financial services. This chapter also provides an overview about various steps taken by Reserve bank of India towards financial inclusion such as ‘No frill account’, General purpose credit card, Kisan credit card, Mobile banking, Self Help Group-bank linkage model, ICT business model, Joint liability group model, Micro Finance Institution (MFI) - bank linkage model, Business Correspondent (BC) model, and Business Facilitator (BF) model. Further "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" which is a national goal for financial inclusion which has a determined goal of ensuring all the households in the country should have a bank account and access to all the financial services provided by the banks are well explained in this chapter. The last part of the chapter focused on identifying the factors affecting Utilization of Basic Savings Bank Deposit Account by enlightening the theories contributed to the proposed research model.