CHAPTER – II
AN OVERVIEW OF FINANCIAL INCLUSION

2.0 Introduction

Growing population, advent of technology, change in financial systems, innovation and globalization has made the world to shrink to a size of a small village. Connections were made between the major economies and with developing economies for deliverables. Financial exclusion is another major factor rising due to economic disparity between regions. Spread of economic disparity, inequality and poverty obstructs the growth in the regions. So, the Financial Inclusion has become essential and vital component to lay a road for development and growth of each economy. In the absence of financial inclusion it becomes a struggle to eradicate poverty and which itself a disease obstructing all economic progress. Financial Exclusion, led the poorer states to remain poor or impoverished. Social Entrepreneur ‘Muhammad Yunus’ the pioneer of the Grameen Bank of Bangladesh, have shown the world that financial exclusion is unacceptable. Once the counterproductive policy frameworks began to dismantle regulations, most of the economies could see their marginalized people to improve their standard of life.

2.1 Major Reasons for Financial Exclusion

According to Dr. K.C. Chakrabarty, “Financial exclusion is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers.” People whose income is very low, unemployed, illiterate, women and disabled are excluded from the formal financial services. Some of the main reasons for the existence of financial exclusion are highlighted below:
Lack of banking habits and information of existing products

Unable to establish the identity

Illiteracy

Non availability of collateral security

Lack of trust in banks

Those people who are at the bottom of the pyramid gets an increased income are those people get an improved standard of living. Improvement in financial status enables the people to participate in social activities and their spend levels are more. In addition, increased financial earning will enable them to provide good education to their children, maintain good family health conditions.

2.2 Meaning of Financial Inclusion

The Rangarajan Committee has defined financial inclusion as “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”\(^2\) financial assistance extended to poor and weaker section of the society are to raise their standard of living and to improve their self-sufficiency ratio. It is also referred as delivery of financial services at an affordable cost to the disadvantaged section of the population.

2.3 Concept of Financial Inclusion

It is the process of bringing the poor section of community into formal financial system. Since, it has become a worldwide concern, various policy initiatives are made by respective authorities to address the hindrance in achieving the financial inclusion. Majority of the population living in the rural area are dependent on agriculture and/or other related activities. The concept of financial inclusion is also a profitable preposition for the financial institutions\(^3\). Banks can improve their delivery
mechanism, implement new techniques and innovate products’ suitable to the poor people and to their requirements. Thereby, banks and financial institutions stand to enjoy financial deepening.

2.4 Need for Financial Inclusion

Financial inclusion facilitates the marginalized people to plan their future, access to the appropriate financial services, help them to manage money and to meet unforeseen contingencies. Thus financial inclusion makes the people to enjoy improved living condition⁴. Financial development has an impact on the well-being of the people and reduces the poverty apart from contributing to overall economic development.

More often, it is observed that, financial services are provided to high income people and large enterprises. The people living in below poverty line do not have an access to financial services and are being excluded from the main stream of financial inclusion. Poor don’t adapt to the savings habit because of their little earnings and living conditions⁵. As expressed by expounded management thinker C.K Prahalad, “The future lies with those companies who see the poor as their customers.”⁶

Rapid expansion in the labour market is to reutilize the labour from agriculture to industry and informal to formal sectors. UNESCO’s ‘EFA Development Index’ meant to capture a country’s progress towards the goal of ‘education for all’ by 2015 indicates very slow progress in India, ranked 105 out of 109 countries.⁷ Lack of literacy prevailing in this kind of society does not encourage their children (Survey report of Aser 2010, the percentage of children aged six to fourteen years no enrolled in school in rural India)⁸ to go for proper education but are pushed to undertake some stray or odd jobs to keep their livelihood. Some of the adult male member’s do not concentrate on regular income to take up the responsibility in rearing the family but do some jobs to satisfy their personal ill-needs (Vices). In those families women are
compelled to take up the job to maintain the family requirements. In such a family situation children turn to engage in criminal activities without realising the future. Further, financial inclusion focuses on offer of various financial services which include, credit, savings, insurance and payments and remittance facilities.

### 2.5 Scope of Financial Inclusion

As per Dr. Rangarajan Committee report (2008), it bring in objective of financial inclusion to extend the scope of activities of the organised financial system to include with its ambit the people with low incomes. The poor people require savings to meet unforeseen expenditure. Access to financial services allows the poor to save money out the house safely. This brings prosperity over a period of time.⁹ They also require credit not only to increase their investment in agriculture and other productive activities but also to meet some of their regular expenditure. Due to formalities and lack of understanding, they don’t approach the formal financial institutions but avail the credit through money lenders and other informal sources. The result of such course of action is that, they are not in a position to overcome the debt incurred and suffer from poverty. India can look at adopting a strategy like redefining the priority sector, involving rural moneylenders as per the Japanese Sarakin Model, focusing on the emerging rural service sector.¹⁰ Credit from formal financial institutions helps them to increase their income and livelihood. For some people, they diversify into business opportunities as interest rates are comparatively low and it is easy to repay. If the insurance at affordable nature are available, then their risk management becomes easier for them. Education to the poor people on their financial planning would develop good financial habits and gain knowledge about various products in the market. To make financial inclusion a success, collective interest should be shown from all the concerned departments to facilitate the people. Banks, Insurance, Government, formal institutions and the people itself are necessary
to implement financial inclusion. If the goal of financial inclusion to be achieved, all stakeholders including the people at the bottom of the pyramid should come forward and utilize the services to a larger extent. Thus, it enables the policy makers to find out an appropriate mix of strategy to eradicate poverty and bring in growth and development to the economy as a whole.

2.6 Global Scenario on Financial Inclusion

There is a worldwide concern about the underprivileged section of the society being excluded from the fold of basic banking services. As a support to this concern, during the Coordinating Committee for the International Year of Microcredit2005, José Antonio Ocampo, Under Secretary General for Economic and Social Affairs expressed that, “Efficient financial systems are vital for the prosperity of a community and a nation as a whole. To ensure that poor people are included in the benefits of development, it is necessary that these vast numbers have consistent access to financial services, access that can translate into a key element of economic growth and poverty alleviation options.”

Hence developing countries design and pass legislation to suit the poor people of the society. Usage of innovative technology and surplus incomes had helped the developed nations to achieve the financial inclusion to a greater extent. Different countries have tried to define or explain their own perception on financial inclusion. The steps initiated by them on the prevailing circumstances are discussed below for an understanding.

2.6.1 Financial Inclusion in USA

To facilitate the low income group, regulations like community Reinvestment ACT (CRA) and Home Mortgage Disclosure Act were passed. Both these Acts instruct banks to provide services to all without any discrimination and banks need to disclose to whom they are providing the services. The Chairman of the Fed Reserve Board Ben S Bernanke has referred to the role of community based financial
institutions to minimize the issues and other market failures that tend to prevent from maximizing social welfare. He has advocated that developing the community based financial institutions to fit into local needs.

**2.6.2 Financial Inclusion in Canada**

Federal government (2003) introduced ‘Access to Basic Banking Services Regulations’ legislation to enable the poor to open bank accounts without any difficulty. The banks were instructed to provide a low cost bank account without levy of charges for processing government checks presented by non-customers.

**2.6.3 Financial Inclusion in France**

In 1984 Banking Act was made ‘Right to Bank Account’ as a legal right. If in case, any person is not permitted to open a bank account, they can write to the Bank of France which in turn instructs the financial institutions to open the account immediately.

**2.6.4 Financial Inclusion in UK**

Financial inclusion means not only providing a basic bank account, it also includes affordable credit and financial advice. UK had set up a financial Task Force to monitor the initiatives taken for financial inclusion and Financial Inclusion Fund to support promotion of financial inclusion. They also made an alternate arrangement for the people who are not willing to access the bank account but wish to operate their accounts through Post Office Card Account (POCA). According to National Housing Federation, UK, “Modern living means households need access to decent bank accounts with credit and borrowing options”.

**2.6.5 Financial Inclusion in Scotland**

Eleven percent of Scots do not have a bank account. That can mean a whole range of difficulties. People were unable to borrow at a fair rate, save for necessities
or make provision for their future. As per Scottish Executive, Edinburg (2005) “They may face significant disadvantages such as being unable to start a job or set up home”.

2.6.6 Financial Inclusion in Belgium

Apart from the banks and financial institutions the post offices in Belgium deliver banking services to the poor. La Banque de la Poste has partnered with Fortis Bank in which the post office acts as a bank for the poor. In 1996, the banks signed a charter to provide bank account to the people who do not possess a transaction account. The basic account facilitates the people in getting the credit transfers, deposits, withdrawals and bank statements. If any financial institution refuses to open an account to a person who is genuine, then that person can approach the banking ombudsman for the refusal.

2.6.7 Financial Inclusion in Australia

Four major banks such as, ANZ, National Australia Bank, Commonwealth Bank, and Westpac provide basic accounts to the needy people. The account is provided at free of cost and there is no restriction on the number of transactions made. As per the Australian Bankers Association, bank staffs were instructed to detail various products or accounts available to the low income people. Likewise, instruction to the bank staffs also to help the elderly people to access the bank accounts. It also appointed persons to carry out the self service banking and to provide financial education such as usage of the ATM, telephone, Internet banking etc. to older Australian people. A report on Financial Exclusion in Australia (Nov, 2004) had mentioned that, “Financial exclusion can also apply to individual small businesses, NFPs and other community enterprise organisations.”
2.6.8 Financial Inclusion in South Africa

South African Financial Sector Charter (FSC) in 2003 informed about increasing the financial access to the low income communities and aimed to develop the agricultural sector and increase the black ownership status. In 2004, launched a low cost national bank account called “Mzansi”. Four major retail banks namely, Absa, National Bank, Nedbank, Standard Bank and along with them Post Bank also involved in offering low cost accounts to the poor. Research study conducted by World Bank along with ING in 2004, observed that postal networks have widespread coverage in rural areas and thereby reach to formal banking is easy. It identified that one-third of the unbanked population had access to a mobile phone. So South Africa considered that mobile banking as a best alternative to reach the poor and rural people. Three major banks using the mobile technology allowed the users to remit payment and purchases using SMS facility. The WIZZIT MasterCard is a debit card provided to the customer to make purchases, withdraw cash from ATM. Cash deposits were also made in any post office which will get credited to their account.

2.6.9 Financial Inclusion in Kenya

Faulu, a Microfinance institution launched a pilot project called M-Pesa that allows customers to receive or repay loans through a mobile phone. This programme was launched in partnership with Safaricom, an affiliate of Vodafone, the MFI credit the loans to the borrower’s mobile M-Pesa bank account and in turn the borrower can exchange the credit for cash at Safaricom dealer. Similarly the borrower, repay the loan by cash to dealer, who in turn sends the information to Faulu via mobile phone text message to credit the customer’s loan account¹⁴.

2.6.10 Financial Inclusion in Bangladesh

Grameen Bank has played a major role in improving the life of poor people. This has raised the status of the poor and as well gave an access to credit. Dr.
Muhammed Yunus, a Nobel laureate and founder of Grameen Bank has played a major role in transforming the rural sector in Bangladesh and establishing credit as “human right of the poor.” The Grameen Bank provide small loan to self-help groups and as well provide knowledge training on various products, and entrepreneurship. Dr. Yunus is also of the opinion that most of the commercial banks have their products to facilitate only the rich and upper middle class of people. So he suggests for having a small banks to extend banking system to the poor people. Providing micro credits to the women self-help groups are to empower them to become entrepreneurs. Year on year 5% of Grameen bank clients get out of poverty clutches.

2.6.11 Financial Inclusion in Nepal

Government has taken initiative in setting up financial reforms, direct lending programmes, opening of branches in the remote areas to improve access to formal finance. World Bank and Total Management Services in 2006 conducted a survey to find out that access to banking was very low despite the initiatives taken by government and banks. Further, it explored that access to Financial Services through banks were limited but informal lending are more. Further, it has revealed that among the population, only 26% households have a bank account, and 38% of households seek loans from the informal sector. It is being felt that, government should step up its technical assistance funds to help the institutions to develop the innovative products and lend them to poor.

2.6.12 Financial Inclusion in South Korea

Personal Computer and mobile phone penetration rate are high and so the people use advanced mobile banking technologies. Most of the South Koreans make their purchases, through mobile phones. They insert the Smart Card like a SIM card that encrypts the bank account data in their mobiles. The development banking experts of South Korea expressed their joy because of common technological
phenomenon that could bring in financially excluded population into the formal financing mode. Through the mobile banking, South Korea is able to cover more than 50% of households. South Korea is the world’s most Internet-connected nation and most of the people have Third Generation (3G) mobile phones connectivity. Bank account data are encrypted on a smart card chip. To access this service, one has to just hit the “M” button on the cell phone to get connected to the accounts. The Kookmin the South Korea’s largest bank rolled out the country’s first mobile banking service. It has reduced the cost of banking operations to several millions of dollars.  

2.6.13 Financial Inclusion in China  

In the past ten years, China has made great progress in financial inclusion. China’s policies from the State Council, China Banking Regulatory Commission (CBRC) and People’s Bank of China (PBOC) have commercialized its banking sector. Promotion of government to person transfers has been effective in nature. They have expanded outside of cities with 108,000 bank branches in rural areas. The Postal Savings Bank of China alone has 39,000 branches serving 400 million clients. In 2012, 96% of China’s townships had access to a bank branch. The rural poor, migrant workers and SMEs are some of the most underserved groups in the country needed access to credit. Rural people are close to half the country’s population. There is a big gap exists between access and usage. Mobile payments are growing exponentially in China. AliPay, WeChat, F-road and PayPal are some of the companies have extended mobile payments and digital payment solutions to support the beneficiaries of financial inclusion. With regard to spread of microfinance to rural and migrant urban poor are yet to be clear. Likewise, ‘Social Enterprise’ in China is also not defined clearly. Public private participation is not vibrant to strengthen financial inclusion measures.
2.6.14 Financial Inclusion in Brazil

Majority of the banks in Brazil use Point of service terminals, such as bankcard readers at retail and postal outlets to deliver bill payment, savings, credit, insurance and money transfer products in nearly every municipality in the country. Private and state owned banks in Brazil have pioneered the use of POS devises at retail outlets to deliver banking services to low income groups. In 2000, two private banks, namely, Banco Bradesco and Lemon bank and two Stateowned banks like Banco do Brasil and Caixa Economica Federal have developed 27,000 banking correspondents. Data also reveals, that 30% of Banco do Brasil accounts are not active. The study by Consultative Group Assist Poor (CGAP) states that in 2004 (June) 1.05 million customers opened accounts and after six months they maintain only 771,000 active accounts and unprofitable Business Correspondents (BCs) are closed.\(^{17}\)

2.7 Indian Scenario on Financial Inclusion

Right after the Independence, Government after Government has been taking various measures’ in removing poverty and inequality. As per C. Rangarajan Committee’s estimate\(^ {18}\) the poverty ratio was 29.5% during 2011-12 in contrast to 21.9% estimated by Tendulkar methodology. World Bank\(^ {19}\) has made a global comparison, wherein, it found poverty in India is relatively higher than other peers of BRICS nations (Brazil, Russia, China and South Africa) though it has registered an economic growth. Welfare schemes were considered to bring down millions of people out of poverty but the schemes could able to reduce poverty upto 50 percent level before the move of liberalization. India since independence had outrageously made priority in eradicating the poverty but due to various reasons, it could not achieve its plans. Period of 1990 onwards, reforms, liberalization and growth were mantras set by the new generation politics to correct the imbalances. Had India introduced its reforms\(^ {20}\) by 1970, it would have been a possible step to overtake China in terms of
growth by now. Manmohan Singh observation about the economy being ‘over regulated and under governed’

Dr. Rangarajan said that India needs to register 9 percent GDP growth per annum continuously to push up the per capita income from $1600 to $8000-$10000 to emerge as a middle income country and ameliorate living standards of most Indians by 2025. The National Sample Survey data reveals that 45.9 million farmer households are in the country. Nearly 89.3 million total households do not access to credit either from institutional or non-institutional sources. To curb the exclusion, offer of micro credits extended through banking and financial institutions.

In 2008, the Finance Minister in the parliament, expressed that, “India must touch a 10 percent growth and should sustain it for 10, 20, 30 years’ to make poverty as part of India’s history. He also informed that growth was not an end in itself but a strategy to ‘raise resources and acquire the capacity to spend more money on the provision of goods and services that will mitigate the hardship of millions of poor people and bring some cheer in their lives’

To judge growth of a country and its inclusiveness even laying of sewage pipes also adds importance said by our eponymous hero of novel (The White Tiger, Adiga 2008). The Approach paper to the 12th Five Year Plan (2012-17) had endorsed the fact that one percent growth emanating from the agriculture sector would be at least two to three times more effective in reducing poverty than the same growth coming from non-agriculture sectors. As Gulati (2012) pointed out, in the case of China, it was 3.5 times more effective and in the case of Latin American countries, especially Brazil, it was 2.7 times more effective. As per the united Nation Development Programme’s Human Development Index, India ranked as low as 128th in the League of Nations.

The Report on Financial Inclusion had suggested two separate funds – one for the promotion of financial inclusion and the other as a technology fund. Financial
Inclusion Promotion Fund (FIPF) is to be utilized for the promotion of the business facilitator and correspondent model and as well as for the promotion of SHGs. The Financial Inclusion Technology Fund (FITF) is to be used by the banks to meet the cost for inducting the technology and to facilitate the above models to succeed. 

2.7.1 Indian Initiatives towards Financial Inclusion

Today many of us are wondering to know what are ‘Financial Inclusion’ and ‘Financial Exclusion’. But in 1954, All India Rural Credit Survey had discussed about the exclusion of vulnerable sections of our society from the benefits of formal financial institutions. The decennial surveys named All India Debt and Investment surveys and Rural Credit follow up surveys were instituted for the purpose of finding out the progress made in the inclusion efforts. Financial exclusion may lead to increased cost of credit arising out of repeated travel requirements, leakage of loan amount, higher incidence of crime, general decline in investment, difficulties in gaining access to credit or getting credit from informal sources at exorbitant rates, and increased unemployment, etc. According to certain researches, financial inclusion can lead to social exclusion also. So, financial inclusion needs to be preceded by social inclusion.

In 1960s to facilitate ‘inclusion’ special agencies like Small Farmers Development Agency and Marginal Farmers and Agricultural Labourers Agency were constituted to identify the neglect of the sector under bank finance. Most of the branch expansions and development of cooperative and rural development banks programs were initiated for the segments of the society. Till the formation of these agencies, they were excluded from having access to banking services. ‘Antyodaya’ as a philosophy was adopted to benefit the poor and needy section of the people. Further, Nationalization of banks brought in savings bank account with a minimum balance of Rs.10 to witness the growth in microfinance organisations.
2.7.2 New Scenes on Financial Inclusion

Currently new dimension of the financial inclusion is to open-up a bank account with ‘no frill account’ or ‘basic bank account’. The Government intention of nationalization of banks is to shift the focus from class banking to mass banking. The rationale behind opening of Regional Rural Banks was to support the poor people with banking services. The Situation Assessment Survey of Farmers was conducted in the year 2003, in which data indicated that rural households were at 147.90 million. Further on examination it is found that, out of the total rural households, 51.4% of the farmer households were financially excluded.

According to World Bank –NCAER RFAS 2003, (Rural Finance Access Survey) only 41% of rural households have a deposit account from a formal source. The Survey indicated that rural banks cater to the needs of the rich rural borrowers. The study also indicated that 70% of marginal/landless farmers do not have a bank account and none of the poorest rural households has any insurance.

As per National Sample Survey Organisation (NSSO) 59th Round Survey results, 51.4% of farmer households are financial excluded from both formal/informal sources. When it is seen from the angle of region specifics, financial exclusion is prevalent in central, eastern, and northern regions. World Bank country statistics data of 2011, states that, only 35% of Indians have an account with a formal financial institution. Among the formal account holdings, 42% constitute of men and 26% constitute of women.

In 2013, credit rating agency Crisil’s Inclusix index gave India a score of 40.1. It expressed that 40% of the country’s population has access to formal banking services. It also mentioned that, there is a wide variation between the regions, i.e., 62.2% in the Southern region and 28.6% in the Eastern region are having access to formal banking services.
Swabhimaan mission was announced in 2011. It tried to breathe new life into a listless Financial Inclusion Plan. The results were far from reassuring. Rs.500 Crore technology absorption funds were proposed in budget (2007) for spreading micro credit. This fund was routed through Ministry of Panchayati Raj (MoPR) to kick start financial inclusion, computerisation, connectivity, outreach and other crucial activities under the BRGF districts. Second UPA government (2009-14) felt Swabhimaan rural banking scheme is a big step in achieving ‘socio-economic equality’. This brings the “unprivileged segments of the Indian population into the formal banking fold for the first time through social application of modern technology”. Swabhimaan scheme had an objective of bringing basic banking services to the unbanked villages with a population of 2000 and above.²⁹ RBI issued the guidelines for appointment of Business Correspondents by banks. Likewise, new Mobile banking guidelines were also issued by the RBI. Though the scheme was implemented with great enthusiasm, but most of the accounts turned dormant at a later date. RBI discussion paper (August; 2013) mention with distress, “Indian banking sector is yet to meet the desired banking penetration and inclusion as witnessed in most advanced and in some of the emerging economies”.³⁰

As per World Bank statistics India has around 3.5 ATMs and less than 7 bank branches per 1,00,000 people as compared with OECD countries, where there are nearly 30 branches and 90 ATMs per 1,00,000 people. Swabhimaan mission announced in 2011 is in certain ways are the precursor to Pradhan Manthri Jan DhanYogana.

PMJDY made certain insights from the failure of Swabhimaan process and made pragmatically change. On August 28, 2014, Prime Minister officially launched the PMJDY, with a remark, “It is the end of financial untouchability. It is the beginning of freedom from poverty. There are millions of families who have mobile
phones, but no bank accounts. The change will commence from this point.” Comprehensive Financial Inclusion Plan on mission mode was chartered out with a six pillar approach. PMJDY\textsuperscript{31} offered banking facility to each district with 1000 to 1500 households with a distance of 5 Km. Overdraft facilities and RuPay debit cards were also given to each household who open the Basic Savings Bank Deposit Account. Under PMJDY, government plans to offer micro pension to those beneficiaries before 2018. In addition, establishment of Credit Guarantee Fund to cover the defaults arises while issuing overdraft accounts. Every account holder were given a RuPay card, launched by the National Payments Corporation of India (NPCI) and promoted by the RBI. In addition, overdraft facility of Rs.5000, accident insurance coverage of Rs.1, 00,000, life insurance coverage of Rs.30,000 was offered to those opened the accounts before 2015 (26\textsuperscript{th} Jan).

The present government with all its vigour and long-term workable plan had created the infrastructure for direct benefit transfer including subsidiaries, pensions and payments under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). The aim of the mission was not only to remove exclusion but also to bring in the mainstream of excluded section into the financial ambit.

As reported by Wharton School of University, Pennsylvania\textsuperscript{32} 919 million mobile connections existed at the end of July 2014 in India. It can also be presumed that the poorest of the poor for whom the entire efforts are made will have the mobile handset. The desire for them is, even though they may not have means to earn two square meals a day but need a phone on hand for intermediaries.

2.8 Participants of Financial Inclusion

The main participants who are responsible for implementing financial inclusion are: RBI, NABARD, Commercial Banks, Regional Rural Banks, Co-operative Banks, Private Banks, Foreign Banks, Non-Banking Financial Services, and Microfinance
Institutes. The purpose and aim is to raise the level of BPL families in the rural/urban areas above the poverty line. BPL families to raise their standards through self-employment and improve skills with income generating assets, access to bank credit and other inputs. The Committee on Comprehensive Financial Services for Small Businesses and Low Income Household constituted under Nachiket Mor submitted its report in the early 2014\textsuperscript{33}. Its recommendation to form three categories of banks such as Payment Banks, Wholesale Consumer Banks and Wholesale Investment Banks was akin to band aid treatment for financial inclusion. In addition to this, it also suggested that non-banking financial companies should play a larger role in financial inclusion.

2.8.1 Role of RBI in Financial Inclusion

RBI in its 2005-06 annual policy\textsuperscript{34} began its attempt of articulation of inclusion policy, recommending banks to review their existing practices to align them with the objective of financial inclusion by opening ‘no frills account’, simplified KYC procedures with reasonable charges. Financial inclusion plan (FIP) was further developed with the introduction of Business Correspondents (BC) model in the following year. The government accepted the Dr. Rangarajan Committee recommendation on Financial Inclusion in the year 2008. The panel defined financial inclusion as, “Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low income groups. …..they come out of poverty.” K.C. Chakrabarty, former Deputy Governor of Reserve Bank of India (2009-2014) and a passionate advocate of financial inclusion. He states that, “Financial inclusion is not about fashion, but about passion.” Further he has also informed that “banks must not do financial inclusion as charity. But they must undertake it as a viable business model. As you cannot remove poverty by charity, you can’t also bring in financial inclusion by charity”.
RBI Deputy Governor Usha Thorat\textsuperscript{35} and her Committee recommended to enhance the scope of the scheme and suggested a sharper focus on facilitating the financial inclusion rather than a mere review of government sponsored credit schemes. Usha Thorat also informed to formulate a road map to provide banking services in any form to facilitate every village with a population of 2000. Eight years between 2004 and 2012, growth of new bank branches in Metro cities, Urban and Semi Urban areas were to the tune of 93.63\%, 72.12\% and 69.91\% respectively. Whereas, the growth of new bank branches in rural areas (the poverty stricken heartlands) were only 12\%.

The RBI\textsuperscript{s} report on Trends & Progress of banking (2012-13) data available upto 30\textsuperscript{th} June 2013,\textsuperscript{36} informed that unbanked villages with a population of more than 2,000 have been covered with a banking outlet. It also said that villages with a population of less than 2,000 are being provided with a banking outlet either through bank branch or through business correspondents (BCs).

RBI Annual report 2013-14\textsuperscript{37} has published a data on the progress of the government\textsuperscript{'}s financial inclusion plans upto 31\textsuperscript{st} March 2014. The report clearly states that prerequisite for sustaining any public policy programmes lies in its financial viability. It also indicated that banks will not lend to the unbanked unless they find such lending financially viable.

According to RBI\textsuperscript{38}, nearly 2, 48,000 BC agents had been deployed by banks as on 31\textsuperscript{st} March 2014. BCs are providing services through 3, 33,000 BC outlets\textsuperscript{39}. Nearly 117 million basic savings bank deposit accounts (BSBDAs) opened through BCs remained outstanding as on 31\textsuperscript{st} March 2014. This tardy picture is due to non-financial viability of BC model and limited product to offer. The purpose of introduction of BC model is to facilitate branchless operation and operates accounts through hand-held micro-ATM devices that use mobile phone connectivity.
report\textsuperscript{40} (August; 2012) by Sa-Dhan, an association of institutions working towards financial inclusion, and Citi Foundation said that, the whole compensation structure is too meagre to sustain the BC model in operation.

2.8.2 Role of NABARD in Financial Inclusion

A sizeable section of the population, such as weaker sections and low income groups continue to remain excluded from the most basic opportunities and services provided by the financial sector. In order to overcome the problem, the Government of India constituted a “Committee on Financial Inclusion” under the Chairmanship of Dr. C. Rangarajan. The Committee\textsuperscript{41} majorly recommended for constitution of two funds, namely; Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF). Both the funds have been established with NABARD, and it is the coordinating agency for Financial Inclusion initiatives with Financial Inclusion Department (FID) as the nodal department. The core activity of the department is to carry forward the agenda of financial inclusion at the national level.

Each Fund consists of a corpus of Rs. 500 Crore, with initial funding contribution by the Government of India, Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) with a ratio of 40:40:20. The funding was to be contributed in a phased manner over a maximum period of five years. NABARD provides refinance assistance to cooperative banks and regional rural banks (RRBs). The long term refinances given against medium and long term loans, which are an indicator of capital formation in the agricultural sector.

NABARD Infrastructure Development Assistance (NIDA) is designed to assist State Governments and other State owned organizations/Corporations. As of November, 2015, a total financial assistance of 7,611.00 Lakh has been sanctioned to 43 RRBs and 59 Cooperative Banks for issuance of 140.17 Lakh RuPay Kisan Cards and installation of 13,051 PoS/Micro ATMs. Number of human resource development
and Organisational Development Initiatives were taken up by NABARD with funding support from the Swiss Development Corporation. NABARD Venture Capital a new initiative would be making contributions to Alternative Investment Funds (AIFs) with following objectives:

- To complement and broad base the existing Refinance and Co-finance products and other developmental initiatives of NABARD.
- To encourage entrepreneurship in existing or new activities leading to agricultural and rural development.
- To facilitate development of model units for emulation by rural people.

2.8.3 Role of Commercial Banks in Financial Inclusion

The function of the banks is to help in economic development of a nation. It also accelerates the growth of the nation by promoting balanced regional growth, nurture the development of entrepreneurship and accelerate the rate of formation of capital. A sizeable section of the population remains as vulnerable groups, (weaker sections and low income groups) and continue to be excluded from the most basic opportunities and services provided by the financial sector. Financial Inclusion should not be seen as a social responsibility of the Governments and the banking system, but it is a potential business proposition today which can provide the poor an opportunity to build saving and make investments and seek credit.42

Commercial banks came a long way with a substantial spread of 32,224 branches in rural and semi-urban areas comprising 68% of their total outlets as on March 31, 1991. Whereas, as of March 31, 2014 the bank branch network was 1,15,082 and ATM network was 1, 60, 055. Out of these, 43,962 branches (38.2%) and 23,334 ATMs (14.58%) are spread in rural areas. In addition to the above network, 1.4 lakh Business Correspondents representing Public Sector Banks and
Regional Rural Banks are spread to improve banking services in the rural areas (to cover around 600,000 villages). The banking reforms initiated in 1990s have helped banks regain their financial strength but too much focus on prudential norms made them more risk averse. The impact is being felt hard by the poor and underprivileged segment. As expressed by DR. C.K Prahalad, products and services needs to be developed that are adapted to the needs of the majority at affordable prices. This will ensure creation of more job opportunity and there by reduction in inequality and poverty. The Board for Financial Supervision (BFS) was set up within the RBI to start a computerised off-site monitoring and surveillance (OSMOS) of banks from 1995 as a part of a crisis management framework for early warning system (EWS) and as a trigger for on-site inspection of vulnerable institutions. Under the PMJDY the target was to open 150 million new savings bank accounts with ‘no frill’ basis. To this, there was a strong comment from RBI governor that, this will be once again a statistical inclusion and may not be a real financial inclusion because sustainability of account is required.

2.8.4 Role of Regional Rural Banks in Financial Inclusion

Regional Rural Banks in India were established by the RRB Act, 1976 with a view to develop the rural economy for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas. The RRBs provide credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Government of India, the concerned state government and sponsor banks jointly own RRBs. The issued capital of a RRB is shared by the owners in the proportion of 50:15: 35 respectively. Government of India in consultation with RBI and NABARD started the process through comprehensive package for RRBs including cleansing their balance sheets and recapitalising them.
In order to play a significant role as an intermediary for financial inclusion in rural areas, RRBs have started financing under General Credit Card (GCC) and opening ‘No-Frills’ deposit accounts, besides financing Self Help-Groups (SHG) under microfinance program and issuing Kisan credit cards (KCC). Even the project of PPP model is partly funded by the World Bank, with back-ended incentive provided by NABARD from its Financial Inclusion Fund.\textsuperscript{44}

\textbf{2.8.5 Role of Cooperative Banks in Financial Inclusion}

The origin of Urban Cooperative Banks can probably be traced back to the ‘Anyonya Sahakari Mandali’ organised in the erstwhile princely State of Baroda 1889 under the guidance of Vithal Laxman, popularly known as Bhausaheb Kavthekar. Urban cooperative societies were organised on a community basis in order to meet the credit purposes. The movement supported the salary earners, societies, and encouraged thrift and self-help among the middle class and labourers. The basic functioning is focused on mobilising savings from low and middle income urban population and provide credit to their members belong to the weaker sections. The Vision Document for UCBs was released by RBI in 2005 regarded as a landmark event in the history of UCBs. The Vision Document mentioned that five States, namely, Maharashtra, Gujarat, Karnataka, Tamil Nadu and Andhra Pradesh accounted for the majority of UCBs in terms of number of banks in operation deposits and advances. The RBI report\textsuperscript{45} on Trend and Progress of Banking in India 2012-13 pointed out that among the short term rural cooperatives, the overall performance of State Cooperatives Banks (SCBs) and District Central Cooperative Banks (DCCBs) shown profits and asset quality while Primary Agricultural Credit Societies (PACS) registered losses.

UCBs which are not found viable by Task Force on Cooperative Urban Banks (TAFCUB) can exit from banking business either through merger with strong bank or
through voluntary conversion into a cooperative society by paying off the non-member deposits. Like commercial banks, UCBs health is evaluated according to the CAMELS (Capital adequacy, asset quality, management, earnings, liquidity and systems) and control rating models. RBI, Governor Dr. Raghuram G Rajan has taken several innovative measures to re-invigorate the UCB sector on the lines of the recommendations of the High Level Committee on Financial Sector Reforms (2008).

The committee report was published under the title, ‘A Hundred Small Steps’ the committee had recommended that well-run cooperative banks with good track record may be allowed to apply for small commercial banks licenses. In addition, this committee supported the thrust of the Vaidhyanathan Committee recommendations on the governance reforms and recommended that they are not diluted at the implementation.

2.8.6 Role of Microfinance in Financial Inclusion

Microfinance in recent times come to be recognized as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor, with focus on empowering women. In a special report, The Economist had said, “Microfinance may be intended for the masses, but its vocabulary can be understood only by professionals, and then only up to a point.” United Nations in its landmark research work titled ‘Building Inclusive Financial Sectors for Development’, has raised a basic question “why are so many bankable people unbanked?” The year 2005 was declared “The UN Year of Microcredit” by the United Nations. The year 1992 marked the formal beginning of microfinance in India.

The focus on rural banking arises from the fact that poverty in India is extremely well-entrenched in rural areas, with over 60 percent of India’s poor residing in villages. This became an important and source of finance for India’s poor. The
study conducted by Diamond Management and Technology Consultants concluded that less than 20 percent of rural Indians only have access to formal financial services, and about 185 million “potentially bankable” people in rural India do not have a bank account. Microfinance is recognised as a tool for extending banking services to the poor to enable them to save and invest or partake of credit, thereby facilitating them to break the chain of poverty. The successful model of microfinance in India is SHG-Bank linkage model and other model such as ‘Grameen-type’, stand-alone microfinance institutions were lagging far behind\textsuperscript{51}. The primary stakeholders are the poor women who come together as an SHG. As of end March 2007, 29 lakh SHGs had been formed and total loans outstanding to these groups was about Rs.11000 Crores\textsuperscript{52}.

Banks like Canara Bank, Indian Bank, Bank of Baroda, Syndicate Bank and ICICI Bank too have started providing SHG promoting grants to NGOs. There are about 100 MFIs of NGOs are existing in our country and have changed from social intermediation to financial intermediation. Close to 70% of all microfinance loans are provided by the government owned banks. ICICI bank among the private banks, been the most aggressive player. It is the second largest commercial bank partners with microfinance institutions in a way that extends credit directly to Self-help groups in rural areas (Harper and Kirsten, 2006).

Recent initiatives like Aadhaar enabled payments, Business Correspondent model and PMJDY by Government of India is considerably increasing the coverage of Microfinance. During the Union budget, 2015 government proposed to establish Micro Units Development Refinance Agency (MUDRA) bank and setting up of Self Employment and Talent Utilisation (SETU) mechanism which were likely to boost microfinance. Majority of the transactions in India are done on cash. Muhammad Yunus in 1976 is an initiator in bringing change to the lives of the villagers and to
fight against the rural poverty in Bangladesh. A study by Khandkar has suggested that microfinance was responsible for 40% of the entire poverty reduction in Bangladesh\textsuperscript{53}. Its system pays an attention in monitoring education of the children, housing, sanitation, access to clean drinking water and their capacity to overcome disasters and situations.

The Grameen model is widely accepted by Indian Microfinance institutions. Microfinance institution is thematically a financial institution specialising in banking services for low income groups or individuals. As of 2014, roughly there are about 1,000 NGO-MFIs and more than 20 MFIs exist in India. In Andhra Pradesh nearly 30,000 cooperative organisations are engaged in MF activities.

MFIs are also better equipped to handle the urban poor and their credit assessments. As of July 2016, India’s population spread is 1.33 billion, 68% of the population are living in rural areas and among them almost 30% of population are living under chronic poverty condition. 32% of the Indian population is living in urban areas. The proposed Microfinance services regulation bill defines microfinance services as providing financial assistance to an individual or an eligible client, either directly or through a group mechanism.

Millennium Development goals agreed at United Nations Millennium Summit, which set a goal to remove absolute poverty by 2015. So Microfinance has high potential to contribute to the MDGs. Mc. Kinsey and Company (2006) gave a presentation in the Microfinance Investor Roundtable in Washington DC\textsuperscript{54}. Consultative Group to Assist the Poorest (CGAP) also conducted a study in this aspect. In the global scenario, multilateral donor agencies and financial institutions support this scheme. Securitisation is another innovative attempt to link microenterprises with capital markets.
The RBI specifies that a new NBFC must have a minimum start-up capital of INR 20 million and if a new LAB then it has to have minimum start-up capital of INR 50 million. MFIs have been expected to reduce poverty, which is considered as the most important development objective (World Bank, 2000).

A host of players have entered into microfinance space, each having a reason of its own. In reality, many NGOs which entered early have gradually changed themselves into full-fledged lenders in setting up microfinance firms. Certain organisations in India have identified the potential of these groups as a channel for retailing through the micro-credit. It is also considered as an alternative distribution channel (Srinivasan & Sriram, 2006). The committee endorsed the model legislation recommended by the RBI Technical Group to Review Legislation on Money Lending, 2007 as a step towards providing a single regulatory framework for money lending.\(^5\)

In fact, MFIs themselves also have made attempt to define a conceptual framework for assessment through using of commonly agreed indicators and standards. The NBFCs MFI’s formed an association under the name MFIN (Micro Finance Institutions Network). Where, Highmark, Equifax and Experian were awarded licenses to set up in India. Subsequently, MFIN decided to work with ‘Highmark’ for credit bureau initiative and also invested in ‘Highmark’ as a signal to work closely with them. IFC provided the technical support. IFC took initiative in understanding the requirements of the individual MFIs and developed software which can sit on any type of architecture and software to extract a common data format (CDF) which can be uploaded by the credit bureau. MFIN is working with the RBI in getting the similar data on Self Help Groups to the bureau so that complete exposure will be available. In the meanwhile, NABARD recently launched electronic bookkeeping software called E-Shakti.
A mobile app can be used to feed data, and the software can track the internal financial matrix of an SHG. It is currently being tested in two districts—Ramgarh in Jharkhand and Dhule in Maharashtra. NABARD plans to scale the pilot project to eight more districts. J.S. Upadhayay said “It is initial days and we are trying to make our software robust because there is no readymade software available.” The annual report of NABARD for 2014-15 stated that the initiative were in line with Prime Minister Narendra Modi’s vision for a Digital India. To strengthen these ties further, RBI has taken initiatives in recognising the services of MFIs and insisted them to come forward in applying for small banks category. Today there are umpteen number of microfinance companies are operating in India, out of which some of them have become strong and are likely to seek for small bank licence from RBI. Microfinance institutions such as Equitas Microfinance p ltd, Ujjivan financial Services, Bandan Society, SKS microfinance p ltd, Repco microfinance p ltd, Spandana Spoorty financial services ltd, etc. are in the process of acquiring licence.

2.9 Financial Inclusion and Self-Help Groups

Formation of Self-help groups in India was from 1980s onwards. In general practice, self-help groups are in small in nature and their group size is between 10-20 numbers. This group consists of small and economically homogeneous affinity group. They were voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members’ decision. We can state that, members run a mini bank type of operations within themselves. The philosophy behind SHGs is providing ‘access to a well-functioning financial system, by creating equal opportunities and enabling socio-economically excluded people to integrate better into the economy’. National Bank for Agriculture and Rural Development (NABARD) started a pilot project of linking around 500 SHGs with the branches of six banks across the country. The SHG-Bank Linkage Programme (SBLP) was an
outcome of pilot projects during the 1980s for improving access of India’s rural poor to formal institutional financial services. Reserve Bank extended its support to NABARD which in turn encouraged banks to link with SHGs.

Among the commercial banks, Indian Bank was the first one to initiate the pilot project for financial inclusion. The project was implemented in Mangalam village in Puducherry. Subsequently, Government of India accorded national priority to the SHG movement. In 2011, announced a proposal to create a Women’s SHG’s Development Fund with a corpus of INR 5000 million to empower women and promote their SHGs. In fact it was an indigenously developed banking model and emerged as a ‘disruptive innovation’ in rural credit. The concept applied is ‘social collateral’ wherein, ‘savings first, credit later’ is the principle being applied. As of 2012, there were around 7.5 million SHGs supporting the SHG banking operations and also it covered more than ninety million households linked to banks. In 2013, its total savings corpus has reached Rs.27,000 crore and against few thousand rupees in 1992. Its credit outstanding stands at Rs.40,000 crore and disbursements touched Rs. 20,000. The programme covered about ninety five million households. Further NABARD took initiatives after the review of the operations and revised the guidelines and announced it as SHG-2. The institutions such as SIDBI, Rashtriya Mahila Kosh (RMK), Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC) and Friends of Women’s World Bank (FWWB) provide grants and loans to MFIs for lending to SHGs and their federations.

The All-India Debt and Investment Surveys during the period 1950-90 revealed that despite the expansion of the formal credit system and the banking network in the country, the dependence of the rural poor on informal sources and money lenders continued to remain high. Even the Malegam Committee Report on Microfinance had also emphasised the importance of SHG from the financial inclusion perspective.
RBI’s Report on Trend and Progress of Banking in India for 2010-11 had stated that “SHG movement has the potential to satisfy the financial service needs of India’s unbanked people in a sustainable way”. Actual challenges faced by them are, lack of leadership rotation in SHGs, poor financial literacy levels among its members. Some of the groups are trying out a variety of digital accounting applications and community approaches.

Among them, MYRADA work on in-community resource centres and Ekgoan Technologies and Covenant Centre for Development. Another drawback was disbursing of fresh loan was not given till the previous loan is repaid. Subsequent to a study conducted by Suran and Narayana (2009), redesign of the SHG lending product into cash credit account from term loan under the SBLP. This change was with the approval from Ministry of Finance, Government of India, in Sept 2011. This was mainly done to re-invigorate the SHG movement in the country. Self-help groups have become a very established institution in our country. NABARD also made changes and product design; like (i) Allowing voluntary savings, (ii) Purpose of bank loan, (iii) Cash credit/O2verdraft facility for SHGs, (iv) Enabling joint liability groups within SHGs, (v) Improving risk mitigations systems, (vi) Building second tier institutions, (vii) Strengthening the monitoring mechanism and (viii) Addressing training requirements.

SHGs have become a means for building social capital. SHG 2 made a greater impact on the security and empowerment of the rural poor in our economy. SHGs movement can represent as community based organisation and can be a change agents in rural/urban India.

2.10 Role of Technology in Financial Inclusion

Technology can play an important role in reducing operating cost of providing banking services, particularly in the rural and unbanked areas. There are technologies
that could drive the growth in financial inclusion. To provide financial inclusion, the banks are exploring the usage of technology to reduce the operational cost. The efforts made by the Reserve Bank in the direction of using Information and Communications Technology (ICT) with focus on Mobile Banking and the Unique Identification (UID) number are seen wider in promotion of financial inclusion. RBI in their annual report also expressed that India has not potentially reaped the technology for financial inclusion. The technology stands as enabler to stand as an interface between the people and banks.

Consortium of public and private sector partners\textsuperscript{58} convened by Hewlett-Packard Company, with the financial support from United States Agency for International Development (USAID) engaged in three pilot projects in Uganda to determine the role of technology could play in increasing the reach of microfinance.

Earlier experiences of credit card industry in United States revolutionized the delivery of financial services throughout the industrialised countries. The Remote Transaction System (RTS)\textsuperscript{59} was designed to process loan payments, savings deposits, withdrawals and transfers. It was based on a combination of smart cards, point of sale (PoS) terminals, a transaction server and connectors that send data directly to the MFIs accounting and general ledger systems.

Usage of technology will be a critical one in building proper credit information and as well the database\textsuperscript{60}. Earlier Andhra Pradesh government was actively looking at the possibility of disbursing pension payments and other disbursals under REGP through use of smart cards linked to a bank account. The same card could be used for social security programs as also banking transactions and can act as a unique identified card. RBI has set up an Advisory Group on IT solutions\textsuperscript{61} for financial inclusion and it is hoped that collaborative effort between banks, governments and post offices will be facilitated by the deliberations of this group.
In Brazil, banks use PoS terminals such as bankcard readers, at retail and postal outlets to deliver bill payment, savings, credit insurance, and money transfer products in nearly every municipality in the country. While in Bangladesh, Grameen phone, mobile operator is creating community information centers across rural Bangladesh giving 20 million people the chance to use the Internet and email for the first time. Whereas, in India, BSNL on an average has one fibre connected to rural exchange for every 150 sq.km. CorDECT Wireless in local loop has been developed by IIT, Madras and Midas Communications, Chennai which employs an innovative business model of n-Lounge which offer various information regarding agriculture, health, multilingual office packages, e-vet and e-governance. ICICI floated an entity named FINO (Financial Information Network and Operations Pvt Ltd) which was aimed at providing technological solutions as well as services to finance providers to reach the underserved in the country. NABARD had also launched a pilot project on smart cards with Sri Visakha Grameena Bank in Andhra Pradesh, which is one of the front runner banks in financing SHG group. Rural people may be not aware of Smart Cards, Bio-metrics, Touch screens, etc. Hence, it is responsibility of IDRBT to provide formal education to the customers who are to use these banking technology products. Thus there is an imperative need to use technology and innovation to reduce transaction costs.

2.10.1 Role of Mobile Phones in Financial Inclusion

According to YV Reddy, former RBI Governor, Mobile technology helps in bringing the masses into the overall financial system and in ensuring easy financial inclusion.” Online or internet banking has become a latest technological innovation that enables bankers to reach to the customers personal computers. E-Banking has actually shrunk the physical, official size of the bank to the 15 inch monitor. India is also the fastest growing mobile services market in the world.
Online banking is widely used in US and European countries where PC and Internet penetration rate is high. The changing global economic order necessitates financial institutions to focus on emerging and rapidly growing economies like India and China. The reason for low penetration of online banking is cost of PC and computer peripherals are high. Mobile telephony is able to offer more feasibility when compared to PC and internet connectivity. In countries such as Kenya and the Philippines mobile phone banking projects have been set up to allow those without bank accounts to access financial services and payment systems. As of 2008, worldwide payments using mobile phones have reached to a level approximately $37 billion. In CGAP (Consultative Group to Assist the Poor) survey, 62 financial institutions in 32 countries have reported of using technology channels to handle transactions for poor people. These technologies not only include mobile phone but also ATMs, and PoS devices.

M-Pesa, of Kenya\textsuperscript{62} which was launched in 2007, allows users to use mobile phones to transfer money to another mobile phone user. The system also provides a safe, secure and fast money transfer facility at a very low cost. As per Telecom Regulatory Authority of India (TRAI)\textsuperscript{63} there are 379.63 million out of 924.32 million are rural wireless phone subscribers as of August 31, 2014. Bharati along with SBI in Uttaranchal adopted the PPP model to enable money remittance over mobile phone. This initiative began with GSMA conference in Barcelona, Spain (Feb; 2007). This enabled 25 million Indians working overseas to remit money through mobile phones.

India has registered as the highest mobile phone users environment which encourages the mobile phone operators and Cellular Operator Association of India to act fast in facilitating various services to the new users. The wireless banking is a time saving and cost effective technology. Interactive Voice Response (IVR) and SMS
based mobile banking is most popular in India. The role of BCs should be motivated to spend time in educating the rural poor in making use of the mobile technology.

Unveiled initiative, ‘Digital India’ by Prime Minister aims to transform the country into a digitally empowered society and economy through leveraging IT as a growth engine of new India. The government is planned to implement this programme in phases by 2018 and aim to provide broad band connectivity to 2.5 Lakh villages and make Wi-Fi enabled schools by 2019. It is felt that approach has to be changed and deregulation on mobile money is expected in the future. The studies are undertaken to empower TRAI as a regulator to handle mobile money business and curtail the power of RBI as regulator in this part. But RBI is of the opinion that, Cash-out facility will lead to the amount of “bypass banking” situation. At the same time there is a survey report (Jul; 2014) of InterMedia India, states that awareness of mobile money in India is very low and to the tune of 0.3 percent has accessed this service.

2.11 Role of Insurance in Financial Inclusion

The Insurance Regulatory and Development Authority Act (IRDA) in 1999 made the way of introducing market driven competition in the industry. The standards improved and more innovative products came into light. By 2050, Indian economy is likely to grow to almost 90 percent of the size of the US economy. Tapendra Sinha, professor of risk management and insurance at ITAM, Mexico has studied the relationship between insurance and GDP in India. Insurance companies like LIC have created new distribution links in rural markets. LIC has widespread network of agents in the rural areas selling primarily savings oriented policies.

On the other hand, the private sector companies have found that selling through individual agents in this sector can be inefficient and expensive. So, they preferred to enter Bancassurance tie-ups with large public sector banks and specialized rural
institutions, such as the Regional Rural Banks which enjoy large rural customer bases and wide branch networks providing efficient access to these areas. Recently several RRBs and Co-operative banks have taken up the distribution of insurance products as an attractive earning opportunity. Post office too has a highest penetration in the rural areas, but postal department runs its own rural life insurance scheme that offers coverage at a moderate level. Some of the insurers also entered tie-ups with large consumer goods marketing companies that have an established presence in rural regions.

Projection of Micro insurance, to cover entire vulnerable section of population is brought again into consideration. According to the International Labour Organisation’s Micro insurance Innovation Facility, about 60 percent of micro-insurance clients worldwide are in India. The government of India is keen in setting 100% financial inclusion within the target date. The government through its PMJDY scheme had introduced a savings-oriented insurance product that provides flexibility in premium payment. In rural areas payment schedule would be linked to the harvest season. To make success of insurance linked banking products, engaging of properly trained agents with partnership along with village level institutions and nongovernmental organisations will reduce the cost to insurers and bankers.

2.12 Financial Literacy and Financial Inclusion

Before understand financial literacy, understanding the necessity of basic education to all is important and in fact women and girls education will help them to be a self-sufficient in all the times. Especially MDG and World Education Forum also demonstrate education for all goals. It is not only to promote gender equality but research shows that investing in education is one of the most effective, high-yielding development investments a country can make. According to some estimates, 72 million children worldwide do not attend school, and 54% of the girls are not attending to school. These inequalities in education will perpetuate violence, poverty
and instability and will keep nations from achieving economic, political and social progress.

Out of 700 million illiterate adults in the world, two-thirds are women. Some economists including Lawrence Summers, a former Harvard University president and former director of President Obama’s National Economic Council, have stated that educating girls may be the single highest return investment available in the developing world. Likewise, Nobel Laureate Amartya Sen stresses, when women are educated they gain voice and agency in their lives, giving them more economic opportunities.

In Bangladesh, the long-standing Bangladesh Rural Action Committee (BRAC) provides non-formal schools for more than 1 million highly disadvantaged children, two-thirds of them girls. The BRAC approach is now being tried in several other countries. PMJDY is a big step towards women empowerment. The government has allocated Rs.100 Crore for the ‘beti bachoo, beti padhao’ scheme for the girl child in the budget. Securing privacy for women and ensuring cleanliness of dwellings, villages and towns to help achieve the targets of Swachh Bharat by 2019.

While inaugurating the PMJDY Scheme, the Prime Minister expressed that, “The poor of the nation will get strength to fight poverty and will go a long way in bridging the divide between the rich and poor, empower women and end financial untouchability.” The problem of deep rooted poverty with depressed income for the rural population has been compounded by the lack of education and basic infrastructure. The Finance minister has informed that, “it is essential that people understand the importance of availing financial services, which will enable them to participate in India’s growth story.”

Many countries have been putting lot of efforts in promoting financial education as a measure to step up the financial inclusion process. Financial education is much more needed in developing countries to remove inequality and poverty. Harvard
Professor Shawn Cole and CMF Research Associate Nilesh Fernando in their works have revealed that ‘how levels of financial literacy education affect financial behaviour’. They have made several assessments from both developed and developing world to discuss the consequences of low levels of financial literacy. Most of the unbanked people lacks financial literacy and does not bother about savings and investment plans to secure their future life.

FLCC provide Financial Literacy and Credit Counselling. The Rural Development and Self-employed Training Institutes (RUDSETI) provide skill development/capacity building. A committee on financial literacy counselling set up along with the members from Reserve Bank, NABARD, IBA, BCSBI, CIBIL, NGOs working in this area and consumer organisations will foster greater collaboration in areas relating to consumer education and protection of consumers interest. RBI in collaboration with state government, have initiated to introduce financial and related material in the curriculum of schools and colleges. According to Neville Richardson, Chief Executive of Britannia Group, “Financial literacy is the key to financial inclusion.” Most of the time, financial education programme in India is obfuscation from the beginning. Across the world, the cost of providing financial education is not subsidized.

While concluding from the above facts, financial inclusion is essential for development of an economy. Growth is important and at the same time the people are to be protected in such economy. To support to this understanding, mention of great leader Karl Marx’s first published pamphlet, (1891) is vital. Karl Marx wrote that: “Our desires and pleasures spring from society; we measure them, therefore, by society (…) they are of relative nature” (cited in Alcock, 2006: 66). It is evident that, removal of poverty and up-liftment of the society is the foremost important work to achieve growth and development of an economy.
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