Chapter 4

Conceptual Outline and Policy Initiatives
4. Conceptual Outline and Policy Initiatives

4.1 Concept and Its Evolvement

4.1.1 Definitions

The definition of Financial Inclusion varies across countries and geographies, depending on the level of social, economic and financial development; the structure of financial sector; socio-economic characteristics of the financially excluded segments; and also the level of importance given by the authorities and Government on financial inclusion. Over the years, several definitions of Financial Inclusion/Exclusion have evolved. These are presented in the Table 4.1 below –

Table 4.1: Definitions of Financial Inclusion/Exclusion

<table>
<thead>
<tr>
<th>Author/Institution</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Andrew Leyshon and Nigel Thrift (1994)</td>
<td>Financial Exclusion refers to those processes that prevent poor and disadvantaged social groups from gaining access to the financial system. It has important implications for uneven development because it amplifies geographical differences in levels of income and economic development.</td>
</tr>
<tr>
<td>ADB (2000)</td>
<td>Provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises.</td>
</tr>
<tr>
<td>Stephen P. Sinclair (2001)</td>
<td>Financial Exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self exclusion in response to negative experiences or perceptions.</td>
</tr>
<tr>
<td>Chant Link and Associates, Australia (2004)</td>
<td>Financial exclusion is lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes a concern in the community when it applies to lower income consumers and/or those in financial hardship.</td>
</tr>
<tr>
<td>Treasury Committee, House of Commons, UK (2004)</td>
<td>Financial Inclusion is the ability of individuals to access appropriate financial products and services.</td>
</tr>
<tr>
<td>Author/Institution</td>
<td>Definition</td>
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<tr>
<td>Scottish Government (2005)</td>
<td>Access to individuals to appropriate financial products and services. This includes having the capacity, skills, knowledge and understanding to make the best use of those products and services. Financial exclusion is the converse of this.</td>
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<tr>
<td>United Nations (2006)</td>
<td>An inclusive financial sector is the one that provides ‘access’ to credit for all ‘bankable’ people and firms, to insurance for all insurable people and firms and to savings and payment services for everyone. Inclusive finance does not require that everyone who is eligible use each of these services, but they should be able to choose to use them if desired.</td>
</tr>
<tr>
<td>Philip Molyneux (2007)</td>
<td>Financial exclusion can be regarded as both the consequence of market failure (sub-optimal and reduced choice of services) and also due to other factors that limit access to financial services in efficient markets. The excluded group may not just have an appropriate choice of products available to meet their needs (sub-optimal choice) or it may not be worthwhile for the banks to offer such services due to ‘apparent’ lack of consumer interest (reduced choice).</td>
</tr>
<tr>
<td>World Bank (2008)</td>
<td>Broad access to financial services implies an absence of price and non-price barriers in the use of financial services. It is difficult to measure because access has many dimensions.</td>
</tr>
<tr>
<td>European Commission (2008)</td>
<td>Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.</td>
</tr>
<tr>
<td>Accion International (2009)</td>
<td>Financial Inclusion is a state in which all people of working age have access to a full suite of quality financial services, provided at affordable prices in a convenient manner, and with dignity for the clients.</td>
</tr>
<tr>
<td>Georges Gloukoviezoff (2011)</td>
<td>Financial Exclusion is the process whereby people face such financial difficulties of access or use that they cannot lead a normal life in the society to which they belong.</td>
</tr>
<tr>
<td>Global Partnership for Financial Inclusion (2012)</td>
<td>Financial Inclusion is a state in which all working age adults, including those currently excluded by the financial system, have effective access to credit, savings, payments and insurance services provided by formal institutions.</td>
</tr>
</tbody>
</table>
Financial Inclusion is a state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively. It is achieved by financial literacy and financial capability on the part of consumers and access on the part of financial product, services and advice suppliers.


The review of literature observes that most of the operational definitions are context-specific, it originates from country specific problems of Financial Exclusion and socio-economic conditions. Operational definitions also accentuate the role of Financial Institutions or service providers involved in the process.

4.1.2. Concept and its evolution in Indian Context

Some definitions advocated by Indian policy makers are outlined below –

Table 4.2: Definitions of Financial Inclusion/Exclusion – Indian context

<table>
<thead>
<tr>
<th>Author/ Institution</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>V. Leeladhar (2006)</td>
<td>Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups.</td>
</tr>
<tr>
<td>Mohan (2006)</td>
<td>Financial Exclusion signifies lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers.</td>
</tr>
<tr>
<td>Usha Thorat (2006)</td>
<td>Financial Inclusion means provision of affordable financial services viz., access to payments and remittance facilities, savings, loans and insurance services by formal financial system to those who tend to be excluded.</td>
</tr>
<tr>
<td>Reddy (2007)</td>
<td>The process of Financial Inclusion consists of seeking each household and offering their inclusion in the banking system.</td>
</tr>
<tr>
<td>Committee on Financial Inclusion (2008)</td>
<td>Financial Inclusion is a 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.</td>
</tr>
</tbody>
</table>

15 Transact is a free and independent UK-wide network for people committed to practising and promoting financial inclusion. <http://www.transact.org.uk>
Committee on Financial Inclusion in its report submitted in January 2008 argued –

Holding a bank account itself confers a sense of identity, status and empowerment and provides access to the national payment system. Therefore, having a bank account becomes a very important aspect of financial inclusion. Further, financial inclusion, apart from opening and providing easy access to a No Frills account, should also provide access to credit, perhaps in the form of General Credit Card or limited OD against the no frills account. It should encompass access to affordable insurance and remittance facilities. It should include credit counseling and financial education/literacy. While financial inclusion in the narrow sense may be achieved to some extent by offering any one of these services, the objective of “comprehensive financial inclusion” would be to provide a holistic set of services encompassing all of the above. (35)

Figure 4.1: Comprehensive Financial Inclusion

Source: Report of the Committee on Financial Inclusion. 2008 (34)
The Planning Commission, Government of India formed a committee on Financial Sector Reforms under the Chairmanship of Dr. Raghuram Rajan. The committee submitted its report viz. 'A Hundred Small Steps' in 2009. The committee while defining access in a financially inclusive system opines –

Financial inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. Households need access to finance for several purposes, the most important being for contingency planning and risk mitigation. Households build buffer savings, allocate savings for retirement and purchase insurance and hedging products for insurable contingencies. Once these needs are met, households typically need access to credit for livelihood creation as well as consumption and emergencies. Finally, wealth creation is another area where financial services are required. Households require a range of savings and investment products for the purpose of wealth creation depending on their level of financial literacy as well as their risk perception.

![Image of a diagram showing household access to financial services]

**Figure 4.2 : Household Access to Financial Services**

Source: Report of the Committee on Financial Sector Reforms (50)
4.1.3. Data and Measurement

Financial inclusion data is critical for effective policy making and tracking the progress of the proposed targets. Without standardised, comparable, and regularly updated data at the global and national level, progress tracking is difficult and targets set might lack direction. Thus data and measurement are indispensible that requires defining measurable financial inclusion dimensions and improving current and future data collection efforts and indicators toward the goal of establishing an international financial inclusion database.

Financial inclusion data are at an early development stage. It is critical to ensure that the necessary indicators are covered and key data are collected at regular intervals. Three sources of data can be used to measure financial inclusion as well as to know the factors limiting inclusion. These three sources are

i) Regulators of financial services (supply side),

ii) Financial institutions (supply side)

iii) Surveys of users – individuals, households and firms (demand side)

The regulators have a major role to play in facilitating data collection efforts. In a large number of countries, regulators don’t collect data on number of bank deposits. Data on credit is even more limited (Kendall, Mylenko and Ponce). Further, data on regulated non-bank deposit accounts are also very limited. There are multiple avenues to support data collection efforts. A good example is from India where the Indian Government encouraged measurement and reporting to track progress of its agenda for increasing credit flow to women. Following the Government’s direction, RBI in 2000 asked all public sector banks to disaggregate and report annually on percentage of credit within their total lending. Since then, it is been easy to track the progress on this issue.
### Table: Measuring Financial Access: Key existing reports

<table>
<thead>
<tr>
<th>Name</th>
<th>Developer</th>
<th>Key Facts</th>
</tr>
</thead>
</table>
| Financial Access | World Bank Group | - Statistics on financial access in 142 countries  
- Usage statistics: deposits, loans, branches  
- Policies and regulations: bank agents, postal networks, branch and credit regulations, consumer protection  
- SME financing |
| Financial Access Survey (FAS) | IMF | - Cross-country geographic and demographic outreach of financial services  
- Outreach: bank branch network, ATMs  
Financial instruments: deposits, loans, debt securities, insurance |
| Enterprise surveys | World Bank | Comprehensive firm level data in emerging markets, collected in 3-4 year rotation |
| Household and consumer surveys | World Bank and Melinda Gates foundations | - Household level indicators of access to finance  
- World Bank’s household surveys  
- Global household survey  
- Finscope: focus on consumers’ usage and perception of financial services |
| Financial Infrastructure indicators and data | World Bank | - Doing Business Indicators: Getting Credit (covering credit reporting and collateral securities in 183 countries)  
- Global payment systems survey (covering 142 countries)  
- Global remittance price database (launched in 2008, shows remittance data in 178 corridors) |

*Demand side and others are supply side

**Figure 4.3: Measuring Financial Access: Key existing reports**

Source: Adopted from* Toward Universal Access: Addressing the Global Challenge of Financial Inclusion* and updated by researcher
Before Financial Inclusion can be improved, it must be measured. The extent of inclusiveness of the financial systems is less known globally. From the available literature it is evident that a comprehensive measure that can be used to indicate the extent of inclusion across countries is lacking. Various studies have identified various indicators of financial inclusion. Howarth, Catherine, Peter Kenway, Mohibur Rahman and Guy Palmer proposed 46 different indictors of social exclusion, three of which relate to financial exclusion.

To assist the policy makers in designing effective policies and tracking global progress in financial inclusion, the World Bank collected first set of indicators of financial access in countries around the world in 2005 and update these indicators for selected countries in 2008. Beck, Thorsten, Asli Demirguc-Kunt and Maria Soledad Martinez Peria have presented a comprehensive series of new indicators of banking sector penetration across 99 countries based on a survey of bank regulatory authorities. These indicators are

i) Geographic branch penetration: Number of bank branches per 1,000 km$^2$

ii) Demographic branch penetration: Number of bank branches per 1,00,000 people

iii) Geographic ATM penetration: Number of bank ATMs per 1,000 km$^2$

iv) Demographic ATM penetration: Number of bank ATMs per 1,00,000 people

v) Loan accounts per capita: Number of loan accounts per 1,000 people

vi) Loan-income ratio: Average size of loans to GDP per capita

vii) Deposit accounts per capita: Number of deposit accounts per 1,000 people

viii) Deposit-income ratio: Average size of deposits to GDP per capita

CGAP in its wide ranging reports viz. Financial Access presented the most recent and comprehensive set of global financial access indicators collected through a regulator survey in 139 countries in 2009 and 142 countries in 2010. These indicators include –
i) Number of deposit accounts and loans

ii) Number of deposit clients and borrowers

iii) Number of financial access points such as branches, agents and ATMs.

Improving access means improving the degree to which financial services are available to all at affordable price. It is easier to measure the use of financial services and use can be observed. But use is not always same as access. Access essentially refers to the supply of services whereas use is determined by demand as well as supply. A basic challenge in measuring financial inclusion is differentiating between access and use of financial services. Individuals may choose not to use services even if they are available. Such voluntary exclusion is difficult to measure, as it is not directly observable. So, researchers mainly rely on indicators of use as an approximation to access and use ‘access’ and ‘use’ interchangeably.

Another challenge is to distinguish between voluntary and involuntary exclusion. Further to distinguish involuntarily excluded between those that are rejected due to high risk or poor project quality and those that are rejected due to discrimination or high price which makes financial services unaffordable. Rejection due to high risk or poor project quality is not necessarily worrisome. However, rejection due to discrimination or high price is to be properly addressed. Poor people could be involuntarily excluded due to unavailability of suitable products and services. On the other hand, voluntarily excluded may be due to lack of awareness of products if financial institutions do not target their marketing towards certain groups. Further, individuals can access services indirectly by using accounts that belong to somebody else in the household or peer group. Voluntary exclusion can also result from lack of financial literacy.
Due to the inherent difficulty of collection of demand side data, most of the studies on financial inclusion/exclusion rely on 'supply-side data' collected from regulators. Supply side data suffers from a major limitation that they cover only regulated financial system, excluding semi-formal and informal service providers which have a very large clientele base specially in the low-income countries. In addition, the number of accounts often overstates the number of account holders due to multiple account holdings. It is almost impossible at the present situation to avoid double counting of individuals with multiple accounts or credit facilities or accounting a large number of dormant accounts. However, using household surveys
in combination with regulatory data can improve data consistency and quality. Harmony of methodology for key financial access indicators would allow for a more effective cross-country comparison and analysis. An important step towards this has been undertaken by the World Bank. Its Development Research Group is working on Global Financial Index, popularly called Global Findex. It fills a major gap in the landscape of financial inclusion data and it is the first public database of ‘demand-side’ indicators that constantly measures individuals’ usage of financial products across countries and over time. Key characteristics of Global Findex include: cross-country compatibility, availability of demographic co-variates and regular measurement of the entire set of countries over time. The Global Findex indicators are drawn from survey data collected over the 2011 calendar year, covering more than 1,50,000 adults in 148 countries and representing about 97 percent of the world population. It may be noted here that the data collection in India under this survey excludes Assam.

From the above discussion it has been observed that several indicators have been used to assess the extent of financial inclusion. Such indicators while using individually can provide only partial information and can lead to misleading understanding of the extent of financial inclusion in an economy. Thus, it was felt that a comprehensive measure of financial inclusion is necessary which can incorporate several dimensions of financial inclusion, preferably in one single number. With this objective in 2008, Sarma has developed an index of financial inclusion with some modifications in approach which are adopted by UNDP for computation of some well known indices. Sarma’s index has received wide acceptance among researchers and policy makers. The index incorporates three basic dimensions of banking as detailed in the Table 4.3.
### Table 4.3: Sarma’s Index – Dimensions and sub-indicators

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Sub-indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking penetration (BP)</td>
<td>-Number of bank accounts as a proportion of total population</td>
</tr>
<tr>
<td>Availability of banking services (BS)</td>
<td>-Number of bank branches per 1000 population</td>
</tr>
<tr>
<td>Usage of banking services (BU)</td>
<td>-Volume of deposit as proportion of country’s GDP</td>
</tr>
<tr>
<td></td>
<td>-Volume of credit as proportion of country’s GDP</td>
</tr>
</tbody>
</table>


Further, another index was developed by Chakravarty and Pal in 2010 bringing an axiomatic approach to measurement of the multi-dimensional issues of financial inclusion. This index is an approach to estimate effectively the level of financial inclusion on the basis of relatively easily available data on banking outreach as demand-side data on households are hard to collect. It considers six indicators of banking outreach such as

i) Geographic penetration, which is measured as the number of bank branches per thousand square kilometer area

ii) Demographic penetration, which is measured as the number of bank branches per lakh people

iii) Deposit account per thousand people

iv) Credit account per thousand people

v) Deposit-income ratio, i.e., the ratio of average size of deposits to per capita net state domestic product

vi) Credit-income ratio, i.e., the ratio of average size of loans to per capita net state domestic product

To sum up, there is no single comprehensive measure that can be used to indicate the extent of financial inclusion across economies. Since measuring inclusion is perceived to be difficult, financial inclusion has generally been defined in terms of exclusion from financial system. As the demand-side data is difficult to collect, researchers are developing measures to effectively evaluate level of
inclusion using supply side data. The measures which incorporate many dimensions of financial inclusion/exclusion are gaining importance.

4.1.4. Tackling Exclusion as Business Proposition

It is difficult to know whether banks consider financial inclusion as an ‘opportunity’ or an ‘obligation’. There has been growing concern that the banks should consider financial inclusion initiatives as a profitable business venture on a long-term perspective. The World Bank advocates that the financial inclusion efforts should make business sense to the providers for having a lasting effect. Further, ‘not-for-profit’ mandate for providing financial access may be attributed as a serious shortcomings in the current efforts (Kochhar iii).

However, it is felt that the present business models of banks have a cost structure that is economically unviable for catering to the marginalized sections of the society. On the other hand, the phenomenal growth of the MFI industry and informal providers of financial services in developing countries reflects a huge unmet demand and suitability of some elements of their business models for that demand. The Boston Consulting Group (BCG) in its research conducted in 2006 in India found that a large segment of customers just above at the bottom of the pyramid are excluded from formal financial services. It has termed this segment as “the next Billion” with annual incomes ranging from Rs.60,000/- to Rs.180,000/-. It is the segment which can be profitably served by innovative low cost business model as huge unmet demand for financial services exists in this segment. However, to serve the customers at the bottom of the pyramid necessitates State subsidies and support. BCG in its widely recognized research viz., Indian Banking 2020: Making the decade’s promise come true had proposed for a new business model to serve the excluded people profitably. The imperatives of this new model are presented in Figure 4.5.
## Economic realities

### Low ticket size
- Transaction costs to be lowered by over 90%

### High cost in last mile
- High geographic dispersion of customers

### High risks, no credible collateral

### Low float

### Unique customer traits
- Low financial literacy/discipline
- Unpredictable/cyclical cash flows
- Need for all financial services at one place

### Defunct local economic ecosystem and gaps in business value chains

## Business model imperatives

### Entirely new model
- Smaller, lower cost branches, low cost technology, local low cost human resources
- Leverage shared infrastructure (e.g., shared hosted CBS, UID to reduce KYC cost)

### Variable cost model for last mile
- Channel costs linked to transactions/business volume
- Tie up with other businesses who have an existing variable distribution network
- Leverage ICT based last mile solutions to reduce costs, risks

### Rely on JLG/SHG to begin with
- Build credit history quickly

### Transaction fee bases business models

### Unique business processes/product design
- Door step collection
- Products designed for rural segments
- Integrate the credit and deposit models into one single window for customer
- Offer insurance, remittances through the same window
- Customer education as an integral activity in business model

### Support local economic drivers to spur local livelihood generation
- Fund economically viable value chain segments

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**Figure 4.5: Imperatives to a business model for Financial Inclusion**

Source: Boston Consulting Group Inc. *Indian Banking 2020: Making the decade’s promise come true.*
The economic viability of financial inclusion in India may be enhanced by the following ways –

4.1.4(a). Transaction fee based model – As it is unreasonable for banks to expect good float from the customers of the marginal sections, a transaction fee based model will ensure good returns. The transactions are to be suitably priced.

4.1.4(b). Shared infrastructure – Government should encourage and incentivise developing infrastructure which can be shared by all players for their financial inclusion drives eg., a shared facility to host low value account, a shared KYC data base etc. UIDAI's Aadhar is one very important step towards it and banks are accepting Aadhar cards as KYC document for account opening (refer §9.3.1)

4.1.4(c). Routing Government payments – Routing social benefits through bank accounts has been proved as one of the most significant factor encouraging financial inclusion as well as transparency of such Government schemes. It is being advocated that the Government should also consider paying a transaction fee to the banks who enlist the beneficiaries as customers. Payment of wages through bank accounts under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) is a major step towards it. Till 2010-11, nearly 100 million bank/post office accounts of the poorest people of the country have been opened and around 80% of MGNREGA payments are made through this route. Further in Assam, some other social benefits e.g., benefits under National Rural Health Mission, Government merit scholarships to the ST/SC/OBC students are paid through bank accounts of the beneficiaries.

4.1.4(d). Centralised and updated Land records – Collateral in form of land records is an invaluable asset for secured landing specially among the marginal sections which may at the best have lands, if not other collaterals to offer to secure loans. Computerisation of land records and its easy accessibility and mortgaging formalities will make credit delivery convenient for the banks and poor will be benefitted. Under National e-governance plan, computerization of land records and property registration is being undertaken. Further, under Central Registry for Securitisation and Security Interest of India (CERSAI), the mortgages are being registered. Both these initiatives are expected to bring transparency to the existing practices along with making credit availability and delivery easy for the poor.
4.1.4(e). **Interoperability in BC network** – Interoperability of BCs will enhance the viability of distribution infrastructure in remote areas. In this direction, RBI on March 2, 2012 has allowed interoperability of BCs subject to on-line transactions in a CBS platform.

**4.1.4(f). Viability gap funding of BCs** – The Government may consider funding the viability gap of BCs till this channel is properly established as a business proposition.

However, the activities under financial inclusion drive involve high costs and are seen as impositions upon the regular business by of the bank by both the management and the branch staff. If the bankers would have seen significant business potential in these activities, a more dynamic roll out of the financial inclusion drive with real momentum would have been apparent.

**4.1.5. Use of technology**

While Financial Inclusion initiative primarily aims to deliver services to all people in a fair, transparent and equitable manner at an affordable cost, making latest technologies available in these areas may a long way towards achieving these objectives. Countries which have leveraged the technological advancements in Financial Inclusion drives have made commendable progress towards combating exclusion. Very well known examples are from Kenya, Brazil, Philippines, Bolivia etc. where use of proper technologies have made it possible to reach to the remote clients with ease and in a cost effective way making financial transactions fast and efficient. Use of technology in addressing the issue of outreach and circumventing the problem of lack of physical infrastructure has been talked about a lot, it actually goes much beyond that. At a macro level, technology can help achieve a variety of business objectives and have a multi-dimensional positive impact on it. On one hand, by reducing the transaction costs and also by eliminating costlier, time and labour intensive workflows, it can help lower the costs of doing business. On the other hand, it can lead to enhanced business productivity by bringing in efficiencies, effectiveness and economies of scale in business processes. Further, it can also enable structures for better management control and insight, by helping monitor and mitigate business risks in a timely manner. All this can act as a perfect launch pad for building and growing a successful enterprise. Interestingly all the above are also
the challenges faced by Financial Inclusion intervention, so it is thought that technology can go a long way in meeting such challenges.

Financial Inclusion without the intensive use of technology, especially ICT, in the Indian context is almost impossible given the geographical diversities of the country. Reaching its 1.20 billion population with traditional brick and mortar branches would be nearly impossible. An estimate by Sa-Dhan and City Foundation, even an ultra small branch might need an initial investment of Rs.5 lakh and annual recurring cost of Rs.10 lakh. This implies that the branch would require average business level of Rs.3 crore to attain break even. Further, small value transactions using brick and mortar branches may not be economical. The estimated cost of a cash transaction across the counter is Rs.50, an ATM transaction costs Rs.15, a transaction in mobile costs Rs.1 and through internet it costs fraction of a Rupee. With extensive use of technology, BCs have the potential to reduce cost substantially.

Although BC has been adopted as the model for outreach under Financial Inclusion, the model is yet to be proved commercial viability. It is due to the high cost involved in establishment and the recurring cost of handing small value transactions against the revenue collected from it. As technology has the potential to address the issue of outreach, therefore, one of the basic assumptions for viability of the BC model is intensive and extensive use of technology, especially Information and Communication Technology (ICT). By use of IT, it is possible to provide door step service where accounts can be operated even by illiterate by using bio-metrics or mobile telephones in a very safe manner. ICT in the BC model is positioned as key business enabler.

The existing ICT infrastructure, especially CBS, in the banks should be leveraged to create a delivery model suitable to achieve financial inclusion through the BCs. Indian banking industry has achieved significant success during the last decade by implementation of core banking solution that has helped them streamlining, standardizing and expanding their services. ICT solutions help the banks in providing seamless systems to capture customer data, ensure unique identification and facilitate financial transactions using remote connectivity, consumer data protection and uninterrupted service.
Transfer of social benefits directly to the bank accounts of beneficiaries has been proved a very successful tool for combating financial exclusion globally. In India too, Government is encouraging this model. The Government of India has been emphasizing the need for transferring all state benefits and various cash subsidies to beneficiaries by direct credit to their bank account. Implementation of Electronic Benefit Transfer (EBT) has multiple benefits such as lessening administrative expenditure of cash payment, increasing transparency and avoidance of any leakage. However, the prerequisite for successful implementation of EBT is availability of doorstep banking services throughout the country. ICT based BC model is a good option to reach this objective. Realising this, the RBI advised all banks to make intensive use of IT in BC model.

4.1.5.(1) Technology Models of BC

In India, BCs are found to use two models

a) Smart Card Based Kiosk Model

b) Mobile Hand set based Model

(a) The Smart Card Based Kiosk Model

Under this model a customer is given a card with a 32k / 62k memory chip where details like primary account number, postal address, nominee details, contact information, bio-metric finger print and transaction history is stored. Both the Customer Service Point (CSP) and the customer are issued smart cards. The CSP’s smart card is used for authentication of the Point of Sale (PoS) machine, establishing connection with the intermediate server at the Beginning of the Day (BoD) and at the End of the Day (EoD) for data transfer. The customer is authenticated using the biometric finger print stored in the smart card. The CSP gets connected using any of the secured communication channel such as Global System for Mobile Communication (GSM), Code Division Multiple Accesses (CDMA), Public Switched Telephone Network (PSTN) or Ethernet depending on the availability of type of network at the place of operation. Through this connectivity, the CSP reaches the back-end intermediate Financial Inclusion server of the bank or its service provider where all customer information and account information including
the current balance is stored. This server either regularly updates the banks CBS Server at a pre-decided interval or on a real-time basis.

The IBA Sub-Committee on IT-enabled Financial Inclusion has recommended for issuance of All-purpose Single Card to all the underprivileged as a matter of routine after taking care of the KYC norms as applicable. If cards are issued free of cost, only one card from any bank should be provided and holding of more than one card from different banks should be avoided. At any case, issuance of more than one card should be on chargeable basis. The card should contain all possible features such as –

- Card to contain the full particulars of the account holder with limits sanctioned/ available, balance outstanding, photo, finger prints etc. with provision for data updation and the unique citizenship number, if allotted in future.
- Cover working capital, consumption loan and overdraft limits
- Card should be operable in both online and offline systems
- Operable in ATMs/ PoS/ POTs
- Contactless smart card chip must be conforming to the global standards

(b) Mobile Handset based Models –

4.1.5. (b) (i) GPRS based mobile model

In this model, the CSP uses a high end General Pocket Radio Service (GPRS) based, Near Field Communication (NFC) mobile phone with a camera in place of a personal computer. It also has wired or blue-tooth serial connection to a hand held printer, bar code reader, contact or contact less smart card reader etc. The mobile phone with CSP have sufficient memory to carry data on all customers including their photographs and finger prints. The transactions can be carried out both on line and off line. This model has many advantages such as low establishment cost, self-contained without the need of external power, can be used for door step service. It is ideal for remote locations and in urban locations may be used by existing retail outlets due its low investment and simplicity in operations.
4.1.5.(b) (ii) Mobile for banking transactions

This is the cheapest model available where the CSP and the customer can use any mobile handset for any financial transaction irrespective of mobile network operator or handset model or operating system on the handset. The client interface is just dialing of numbers. It works using Short Messaging Service (SMS) or Unstructured Supplementary Service Data (USSD) technology. This model has been successful in metropolitan cities as a means of remittance by migrant workers. The model with low cost and simplicity has potential to deliver the desired results. However, in a rural scenario with illiterate or little literate clients, it might find lower acceptance.

4.1.5.(II) Importance of Common Infrastructure

Success of technology driven financial inclusion drive in the country will greatly depend on Government’s intervention by way of creating common infrastructure to be shared by all players. The Inter Ministerial Group constituted on November, 2009 by the Cabinet Secretariat, to work out the relevant norms and modalities, recommended the following infrastructure creation –

4.1.5. (II) (a) Real-time Micro Transactions (REMIT) Switch –

REMIT switch will be an interoperable central payments switch that will facilitate real time transactions routing between BCs, Banks, mobile service providers and other stake holders such as UIDAI etc. REMIT will help in executing large volume of small value transactions across banks in real time and a low cost. The REMIT switch will have to be capable to connecting to the UID authentication service so that it can verify the identity of the customer. Once the customer’s identity is verified, REMIT then needs to contact the Account Mapper to obtain the bank account of the customer to proceed with the transaction.

4.1.5.(II) (b) Account Mapper

It is essentially a table which has three attributes: UID number, Bank account number and the mobile phone number of the account holder. It is a service that exists as part of the delivery framework that maps the reference to a mobile number or a UID number to a mobile linked no-frills account in a particular server. REMIT
connects to the Account Mapper to obtain details pertaining to a specific customer after he has been authenticated. The Account Mapper will be operated by a trusted entity that will ensure the privacy of data. Till such time the Account Mapper is developed and becomes operational, alternative mechanisms of linking the customer’s UID number, mobile number and mobile linked no-frills account details may be explored by the stakeholders involved.

4.1.5.(III)(c) Interoperable Infrastructure for Accounting Small Transactions (INFAST)

INFAST can be created as an additional infrastructure for creating and managing mobile linked no-frills accounts. It is like a limited version of CBS that can bring enormous cost optimization to all its stakeholders. The creation of INFAST would significantly reduce the load on the switching infrastructure as it will have to route the transactions only to INFAST instead of switching to the issuing and receiving banks. The chances of failure of a transaction due to non responsiveness on the part of one of the parties will also be minimal.

4.2 Policy Initiatives Globally

Financial Inclusion globally has been mainly initiated by policies of the Financial Regulators and the Governments. Though the nomenclatures of such initiatives were different in past, most of such initiatives were aimed at bringing banking to the mass. Policy initiatives can be broadly grouped as –

i) Direct regulation or legislation

ii) Indirect regulation

iii) Conducive related policies

Bayot, Bernard, Lise Disneur and Elaine Kempson defines Direct Regulation as:

Designed to impose upon financial services providers an obligation or prohibition to provide a certain kind of financial service and to organize, regulated, monitor or control financial services provision in order to ensure financial inclusion.
Many countries such as France, Norway, and Belgium etc have adopted direct regulation to ensure right to an account, adequate transaction and payment banking services provision. However, due to its inherent nature, credit has not been recognized as a right in any country. To regulate the credit market, indirect regulations such as Interest Rate Ceilings, Credit Reporting, Credit Register Checking, Sectoral lending targets has been initiated in many countries.

Governments in many countries are taking up policies which create conducive atmosphere for financial inclusion in those economies. Such reforms are such as financial literacy, relaxation of identification proof, creation of social identification numbers, social security payments through bank accounts of beneficiaries etc. Such initiatives have direct influence in reduction of excluded population. The countries with the lowest penetration of excluded population are the countries where all Governments’ social security payments have been paid directly into bank accounts for some time. Sweden, Germany, Australia, UK, USA and Canada are few countries to name. Electronic payments to the beneficiaries accounts reduces the cost of administration of social security plans and makes distribution effective by eliminating many a lacuna in the distribution process. It has encouraged many a countries to adopt such distribution method of direct transfer of benefits. Its effect on financial inclusion would be seen in years to come.

Financial literacy plays a vital role in making the excluded population respond to the initiatives of the banks and other financial institutions towards Financial Inclusion. There has been increased emphasis in recent times by the policy makers in spreading financial literacy and creating awareness. Countries such as Netherlands, New Zealand, Spain, United Kingdom, Czech Republic and India have already adopted a national strategy for financial education.

The CGD Task Force on Access to Financial Service in its report on October 2009 has recommended ten policy principles for expanding financial access. These principles framed by an international task force of former policy makers, academics and practitioners have been widely accepted by policy makers across the globe. These principles are –
Principle 1: Promoting entry of and competition among financial firms

Principle 2: Building legal and information institutions and hard infrastructure

Principle 3: Stimulating informed demand

Principle 4: Ensuring the safety and soundness of Financial Service Providers (FSP)

Principle 5: Protecting low-income and small customers against abuses by FSPs

Principle 6: Ensuring usury laws, if used, are effective

Principle 7: Enhancing cross-regulatory agency co-operation

Principle 8: Balancing Government’s role with market financial-service provision

Principle 9: Using subsidies and taxes effectively and efficiently

Principle 10: Ensuring data collection, monitoring and evaluation

In recent times, initiatives by Governments for Financial Inclusion in many countries have heightened. This fact is evident from the study of 142 countries conducted by CGAP. As per the report of the study, 45% of economies are having a strategy document for promotion of Financial Inclusion. Out of these, 91% of countries have adopted a strategic approach from 2004 or later. However, there is difference in focus in the strategies among the high-income countries versus low and medium income countries. In high income countries where most of the population is already financially included, regulators tend to focus on consumer protection and financial literacy. In low and middle income countries, focus includes a broader area including promotion of financial access along with consumer protection and financial literacy.
It is seen from the Figure 4.6 that along with consumer protection and financial literacy, developing countries give more importance than the high-income countries on promotional activities linked to Financial Inclusion. In other words, these countries undertake other related policies to make Financial Inclusion conducive. These policies are such as regulation of microfinance, promotion of savings, and promotion of credit flow to SME and rural sectors. In 65% of developing countries studied by CGAP, regulation of microfinance has been a mandate of financial regulators. However, it is also reported that commitment to reforms in Financial Inclusion in many countries are not matched by resources allocated for the purpose. Low-income countries allocate more resources. However, compared to the breadth of their agenda, there exists a larger resource gap.

To ensure that financial systems are not used for illicit purposes such as financing terrorist activities and money laundering, many countries have mandated strict KYC norms. However, in many a case, it has been observed that though unintended, these rules pose as a hindrance to Financial Inclusion as poor are generally not having documented proofs of identity and address. Few countries are revisiting their KYC requirements with a Financial Inclusion focus. Few such examples are Afghanistan’s KYC reforms to encourage branchless banking, Colombia’s KYC relaxation for opening electronic saving accounts; Ghana’s reduced KYC requirements for low-value transactions, India’s adoption of minimum KYC for basic banking accounts etc.
Credit flow to SME has also received wide recognition as a reform agenda. Setting up or expansion of Credit Guarantee Schemes has been taken up in many economies. Some regulators such as in Sri-Lanka and India, direct banks to designate a minimum amount of their portfolios to SMEs.

Countries have undertaken reforms aiming creation of more inclusive financial systems. As per the latest available data, among the regions, South Asia and East Asia and the Pacific introduced the most reforms during 2008-09. It is followed by Sub-Saharan Africa, Europe and Central Asia and high-income countries had fewer reforms in financial access. Pakistan and India lead the way for South Asia with six and seven different areas of reform respectively. Philippines, Malaysia and Nigeria reported the highest number of reforms.

![Figure 4.7: Reforms in various economies](image)

Source: Adopted from Consultative Group to Assist Poor. Financial Access 2010: The state of Financial Inclusion through crisis (21)

### 4.3. Policy Initiatives in Indian Context

Banks in India are regulated by the Reserve Bank of India. The Indian banking system is mostly dominated by Scheduled Commercial Banks (SCBs). Scheduled bank is a bank which is listed under the second schedule of the RBI Act,
1934 which necessitates banks to fulfill certain conditions laid down by the regulator for ensuring depositors' interests. As on March 2011, there are 165 SCBs and 4 Non-SCBs operating in India. The SCBs include Public Sector Banks (PSBs), Private Sector Banks (PVSBs), Regional Rural Banks (RRBs) and Foreign banks operating in India. The Figure 4.8 pictorially shows the set up of Indian banking industry.

Figure 4.8: Set up of Indian Banking Industry

Although nomenclatures were different, but India since its independence in 1947 has a long story of bringing banking to the mass. The Government and the
Reserve Bank of India has been undertaking policies to ensure that banking takes care of the needs of various sections of the society satisfactorily. The Indian financial system essentially catered to the needs of planned development. The planned strategy recognized the critical role of banks in making credit and other financial services available to public at large, so that the benefits of planned economic development can be distributed in a democratic way. In recognition of this role, authorities have adopted or modified policy frameworks from time to time. Accordingly, several initiatives have taken place over time. Various initiatives undertaken can be broadly categorised into three phases –

**Phase I: Starting in the late 1960s through the 1980s**

Focus was on channeling of credit to the neglected sectors of the economy and weaker sections of the society.

4.3.1. Nationalisation of Banks

Nationalisation of private sector banks in India was pioneering step towards accessibility of banking services to the vast rural population of the country. In December 1967, the announcement of the policy of social control over banks was made. In 1969, nationalization of major banks took place. The immediate task set for the nationalized banks were to mobilize deposits and lending for all productive activities. Special emphasis was given to provide credit facilities to weaker sections.

4.3.2. Lead Bank Scheme and Service Area Approach

Pursuant to the recommendations of a study group headed by Prof. D.R.Gadgil and a Committee of Bankers on Branch Expansion Program of PSBs under the chairmanship of Shri FKF Nariman, the Lead Bank Scheme (LBS) was introduced by RBI in December 1969. The scheme emphasized making specific banks in each district the key instrument of local development by entrusting them with the responsibility of locating growth centres, assessing deposit potential, identifying credit gaps and evolving a co-ordinated approach to credit deployment in each district, in connection with other banks and credit agencies.

In 1989, Service Area Approach (SAA) was adopted wherein service area villages were identified and assigned to bank branches based on their proximity and
contiguity and adopting a cluster approach. However, this approach was posing some rigidity from both supply and demand side. Due to allotment of villages to designated bank branches, the activities of service area branches were restricted to allocated villages and they were unable to provide any service beyond their service area despite being in a position to do so. Likewise, borrowers were restricted to approach only the service area branches. Following the recommendations of the Advisory Committee on flow of credit to Agriculture and Allied Activities under the chairmanship of Prof. V.S.Vyas, the restrictive provisions were removed from December 2004, except for the Government sponsored schemes. Financial Inclusion has been given a mandate to all lead banks in recent years.

4.3.3. Priority Sector Lending (PSL)

PSL has been mandated by RBI since late 1960s to step up the flow of bank credit to agriculture, small scale industry, self-employed, small business and the weaker sections within these sectors. The banks operating within India are compulsorily to offer certain portion of its credit towards priority sectors. Priority sectors basically include sectors where flow of credit is not sufficient but development of these sectors is crucial for the socio-economic growth of the country. Broad categories of priority sector include agriculture (direct and indirect finance), small scale industries (direct and indirect finance), small business/service enterprises, micro-credit, education loans, housing loans. Domestic commercial banks need to offer minimum 40% and foreign banks need to offer a minimum 32% of its adjusted net bank credit or credit equivalent amount of off balance sheet exposure, whichever is higher. There are also sub-targets depending on the importance of each sub-group in the economy and the gap in availability of credit in the sub-group. Domestic banks having shortfall in lending to priority sector and/or agricultural target is required to contribute allocated amounts to Rural Infrastructure Development Fund established with NABARD. Likewise, foreign banks having shortfall in lending to priority sector target/sub targets is required to contribute to SIDBI. Interest rates for such contributions are decided by RBI from time to time. However, such contributions are not remunerative enough for banks, so that banks give importance on lending to these sectors. In a recent development, Government has specified that foreign banks having 20 or more branches in the country will be
brought at par with domestic banks for priority sector mandatory lending in a phased manner over a maximum period of five years starting from April 1, 2013.

4.3.4. Credit Guarantee

Credit Guarantee Corporation of India was established in 1971 for providing guarantees against risks of default in payment in lieu of other securities for loans given by banks to various categories of small borrowers. However, it was discontinued subsequently.

In August, 2000, Credit Guarantee Fund Trust for Micro and Small Enterprises was established by Government of India and SIDBI. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 75/80/85 per cent of the credit facility.

4.3.5. Differential Rate of Interest (DRI) Scheme

This scheme was instituted in 1972 to provide credit at concessional rate to the low income groups by banks.

4.3.6. Branch Expansion

The branch expansion policy during 1970s and 1980s on expansion of commercial bank branches in rural areas resulted in significant expansion of bank branches. The branch expansion policy was designed to address the inter-regional disparity of banking development and rural-urban divide. The branch authorization policy was simplified in December 2009 by permitting the domestic scheduled commercial banks to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission subject to reporting. In 2011-12, with the aim of providing enhanced banking services in tier II centres, the general permission was extended to opening branches in tier II centres (with population of 50,000 to 99,999 as per census 2001). This policy has been effective, as a result majority of new bank branches opened during 2011-12 i.e., almost 70% (4,831 bank branches) were located in tier II to tier VI centres.
In the North Eastern states, SCBs are allowed to open branches of any types (rural, semi-urban and urban) without the need of taking permission from RBI, subject to reporting.

*Phase II: Early 1990s through March 2005*

During this phase focus was on strengthening the financial institutions as part of financial sector reforms. Financial inclusion was encouraged mainly by introduction of SHG-Bank-Linkage program in early 1990s and through Kishan Credit Cards (KCC) for providing credit to farmers.

4.3.7. SHG- Bank linkage programme and Micro Finance

One of the early attempts at financial inclusion during the period of economic reforms in India has been the launching of the pilot project on SHG-Bank linkage in February 1992 by NABARD. It proved to be a revolutionary programme for alleviating poverty through capacity building by making credit available and savings easy. Micro finance was adopted as a tool to bring vast unorganized segment of marginal borrowers to the formal credit mechanism and SHG model was adopted to boost the micro finance movement. In 1998, SHGs engaged in promoting the saving habits among their members was made eligible to open savings bank account and that such SHGs need not necessarily have availed credit facilities from banks before opening savings bank account. Subsequent to the Monetary and Credit Policy announcement for the year 1999-2000, the interest rate charged by banks on loans given to MFIs or by MFIs to beneficiaries such as SHGs or individuals was liberalized. Microfinance has emerged as an important semi-formal mode of credit delivery to the people specially those who are excluded from the formal financial system. The key factor which has influenced the success of microfinance is its ability to capture the void left by mainstream providers. Microfinance has been categorized as the fastest growing ‘non-institutional’ channel for financial inclusion in India by the Committee on Financial Sector Reforms. There are two models of microfinance adopted in India. They are i) Self-Help Group (SHG)- Bank linkage model where commercial banks lend directly to SHGs formed explicitly for this purpose and ii) the Microfinance Institution (MFI) model where MFIs borrow funds from banks to on lend to microfinance clients. The first model is the predominant channel for microfinance in India and is a good example of a meaningful liaison
between commercial banks and informal SHGs. These two channels have contributed to the inclusion agenda through provision of loans and access to savings to the disadvantaged sections of the society. Figure 4.9 shows steady increase in Microfinance client outreach over the years.

![Figure 4.9: Trend in Micro Finance Client Outreach](image)

Source: Adopted from Sa-Dhan. The Bharat Microfinance Quick Report 2012 (2)

Similarly, as shown in Figure 4.10, the Micro Finance channel has collectively lent over Rs.556 billion out of which 62.37% has been contributed by the SHG Bank Linkage channel.

![Figure 4.10: Microcredit portfolio outstanding over years](image)

Source: Adopted from Sa-Dhan. The Bharat Microfinance Quick Report 2012 (2)
The SHG-Bank linkage programme has also contributed towards providing safe saving avenue to the disadvantaged. A total of 110 million savers have saved Rs.78 billion with banks as on 2011-12 as per Sa-Dhan study.

![Figure 4.11: Trend in savings by SHGs over years](image)

Source: Sa-Dhan. *The Bharat Microfinance Quick Report 2012*

Although 'microfinance' is being replaced by ‘financial inclusion’ in the business vocabulary widely, in India, it cannot be so. It is due to the fact that some of the essential banking services such as savings and transactions are not allowed to be undertaken by the MFIs unless it is a BC of a bank. MFI-BC model is expected to go a long way in improving financial inclusion in India.

**4.3.8. General Credit Card (GCC)**

To make easy credit facilities available/ accessible to poor, RBI has asked banks to consider introduction of a general purpose credit card facility up to Rs.25,000/- at their rural and semi-urban branches. It is a hassle-free credit facility based in the assessment of household cash flow without security, purpose or end use of the credit. This is in the nature of revolving credit. Banks are incentivized by the regulator by allowing branches to show up to 50% of GCC loans as PSL.
Table 4.4: Progress made in GCC

<table>
<thead>
<tr>
<th>Particulars</th>
<th>As on March 2011</th>
<th>As on March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of GCC outstanding (in lakh)</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Amount in GCC outstanding (Rs. in crore)</td>
<td>3500</td>
<td>4200</td>
</tr>
</tbody>
</table>

Source: RBI. *Report on Trend and Progress of Banking in India 2011-12*

**Phase III: Beginning 2005 till now**

In this phase Financial Inclusion is made a major policy objective.

4.3.9. Opening of ‘no-frills’ account

In the line of basic banking accounts globally, since November 2005, RBI has advised the banks operating in India to make available a basic banking ‘no-frills’ account. The main feature of this account is nil minimum balance maintenance requirement and minimum charges applicable for operation of this account so that it can be accessible to the common man. All banks in the country now offer ‘no frills’ account. RBI has reported that banks have opened 74.3 million such accounts as on March 31, 2011. Although considerable progress has been made towards it as depicted in Table 4.6, however, there are certain barriers that inhibit the active operation of these accounts such as time and cost involved in reaching the bank branch. Policies towards branchless banking are expected to make these accounts more accessible.

As per notification dated August 10, 2012, RBI has changed the nomenclature of ‘no-frills’ account to ‘Basic Savings Bank Deposit Account’ and issued guidelines on the Basic Services to be offered in this account with an objective of bringing uniformity across banking system. RBI advised banks to offer a ‘Basic Savings Bank Deposit Account’ which will offer following minimum common facilities to all their customers:
i. The ‘Basic Savings Bank Deposit Account’ should be considered a normal banking service available to all.

ii. This account shall not have the requirement of any minimum balance.

iii. The services available in the account will include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments;

iv. While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals; and

v. Facility of ATM card or ATM-cum-Debit Card;

The above facilities are to be provided without any charges. Further, no charge can be levied for non-operation/activation of in-operative ‘Basic Savings Bank Deposit Account’. However, Banks are free to evolve other requirements including pricing structure for additional value-added services beyond the stipulated basic minimum services on reasonable and transparent basis and applied in a non-discriminatory manner. The existing basic banking ‘no-frills’ accounts should be converted to ‘Basic Savings Bank Deposit Account’.

4.3.10. Relaxation in KYC Norms

As it was observed that lack of standard KYC documents posed as a major hindrance in opening bank account, in August 2005, RBI has revisited the KYC norms and relaxed it for opening ‘no-frills account’. Now a minimum KYC such as introduction by an account holder who has been subjected to the full KYC drill suffice for opening such basic account. The banks are now permitted to take any evidence as to the identity and address proofs of the customer to their satisfaction. It has been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.
4.3.11. Engaging Banking Correspondents

The Reserve Bank of India, in line with the global trend, ushered in the branchless banking as an important first step towards universal financial inclusion by allowing banks to use Business Facilitators (BF)/ Business Correspondents (BC) to expand their outreach in January 2006. BCs are permitted to carry out transactions on behalf of the bank as agents. The BF can refer clients, pursue the clients' proposal and facilitate bank to carry out its transactions, but cannot transact on behalf of the bank.

Since the allowance of using BCs/ BF in 2006, RBI has issued three notifications for deletion/ addition of entities allowed to work as BCs, operating guidelines of BC supervision, scope of activities of BCs. Important developments are permitting individuals to operate as BC since April 2010, permitting 'for-profit' companies to be engaged as BC since September 2010 and then allowing interoperability of BCs in retail outlets since March 2012. The BC channel is yet to pick up the momentum in India. As on 31/3/2012, a total of 62,468 BCs have been appointed in India. Banks have opened 13,434 BC outlets in urban areas during last three years.16

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<table>
<thead>
<tr>
<th>Eligible Entities</th>
<th>Eligible Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BFs</strong></td>
<td></td>
</tr>
</tbody>
</table>
| NGOs, Farmers’ Clubs, Cooperatives, Community based organizations, IT enabled rural outlets of corporate entities, Post Offices, Insurance agents, Well functioning panchayats, Village Knowledge Centres, Agri Clinics, Agri Business Centres, Krishi Vigyan Kendras and KVIC/KVIB units | i) Identification of borrowers and fitment of activities  
ii) Collection and preliminary processing of loan applications including verification of primary information/data  
iii) Creating awareness about savings and other products and providing financial advice and promoting financial literacy  
iv) Processing and submission of application to banks  
v) Promotion and nurturing of SHGs and JLGs  
vii) Monitoring and handholding of SHGs/JLGs/ Credit Groups and others  
ix) Follow up for recovery |
| **BCs** | | |
| NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Co-operative Societies Acts or the Co-operative Societies Act of States, Section 25 companies, ‘For-profit’ companies, Post offices, Retired bank employees/ Government employees and Ex-servicemen | In addition to the activities allowed for the BFs, the following activities are allowed  
i) Disbursal of small value credit  
i) Recovery of loans  
iii) Collection of small value deposits  
v) Sale of micro insurance/ mutual fund products/ pension products/ other third party products  
v) Receipt and delivery of small value remittances/ other payment instruments |

### 4.3.12. Mobile Banking

Mobile banking is perhaps the most promising front-end technology to speed up financial inclusion in India. Given the success of mobile phones reaching out the customer segments and geographies yet to be tapped by banking and it simplicity of operations, place it as the most preferred choice for the customers. As per Telecom...
Regulatory Authority of India, total mobile subscribers in India is 913.49 millions as on July 31, 2012 resulting a teledensity of 75.21 making India a fastest growing telecom market.

Realising the huge opportunity to provide basic financial services to the unbanked citizens of the country by riding on the mobile infrastructure, an Inter Ministerial Group was constituted on November, 2009 by the Cabinet Secretariat to work out the relevant norms and modalities and to enable finalization of a framework to allow financial transactions through mobile services. The group proposed a framework involving introduction of “Mobile linked No-Frills Account”. It is much like a regular “No-Frills” bank account that can be operated using a mobile phone. The customer can perform at least the following transactions

- Balance enquiry
- Cash deposit and withdraw
- Transfer of money.

RBI has issued guidelines for mobile banking transactions in October 2008. The guidelines permit banks to provide mobile banking transactions to its customers. It mandates that all transactions should originate from a bank account and end in another bank account. It also permits banks to extend this facility through their business correspondents. These guidelines were relaxed on December 2009 and May 2011.

4.3.13. Electronic Benefit Transfer (EBT)

As discussed earlier, social security payments through bank account has direct influence on the financial inclusion in India also. Banks have been advised to implement EBT by leveraging Information and Communication Technology through BCs. In this regard earlier it was “one district – one bank” model. However, keeping in view the difficulties faced by one lead bank in implementing EBT across all villages of the concerned district, RBI has recommended implementation of EBT through “one district-many banks-one leader bank”. Under this model, all the banks having presence in a district would participate in EBT. However, for the administrative convenience, the Government would deal with only one leader bank.
The revised model is expected to expedite EBT as it overcomes many a problems of the earlier model.

One of the most successful EBT in the country is the payment of wages under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA). As on 2010-11 nearly 100 million bank/ post office accounts of the poor people have been opened and around 80% MGNREGA wages are made through this route. Special awareness and outreach activities are conducted to ensure that all wage seekers are able to handle bank procedures, especially in areas where they are unfamiliar with the banking system. Further, GoI and RBI has accepted MGNREGA job card as an officially valid document for KYC for opening bank account. Till Financial Year 2010-11, in Assam a total 2.84 million bank/post office accounts were opened and Rs.3.45 billion wages had been disbursed through these accounts.

4.3.14. Financial Inclusion Plan (FIP) of banks for three years

All public and private sector banks were advised by RBI to put in place Board approved three-year FIPs from April 2000 onwards. The FIP should broadly contain self-set targets with respect to – i) opening rural brick and mortar branches; ii) deployment of BCs; iii) coverage of villages with population of more than 2000 as also other un-banked villages with population below 2,000 through branches/BCs/other modes; iv) opening no-frills accounts including through BC-ICT; v) issuing KCCs and GCCs and other specific products designed by them to cater to the financially excluded segments.

The progress by banks under FIP has been impressive. Especially the penetration of banking has increased in many-folds in rural areas. At the end-March 2012, villages covered under BCs constituted more than 80% of the total villages covered under FIP. The Table 4.6 summaries the achievements in various parameters by banks under FIP.
### Table 4.6: Progress under FIP

<table>
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<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>As on March 2011</th>
<th>As on March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total no. of Customer Service Points deployed</td>
<td>60,993</td>
<td>1,16,548</td>
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<tr>
<td>2</td>
<td>Total banking outlets in villages, of which</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.1 Branches</td>
<td>1,16,208</td>
<td>1,81,753</td>
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<tr>
<td></td>
<td>2.2 BCs</td>
<td>34,811</td>
<td>37,471</td>
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<td></td>
<td>2.3 Other modes</td>
<td>80,802</td>
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<td></td>
<td></td>
<td>595</td>
<td>3,146</td>
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<tr>
<td>3</td>
<td>Urban Locations covered through BCs</td>
<td>3,771</td>
<td>5,891</td>
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<tr>
<td>4</td>
<td>ICT Based A/Cs-through BCs (No. in millions)</td>
<td>32</td>
<td>57</td>
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<tr>
<td>5</td>
<td>ICT Based A/Cs Transactions (No. in millions)</td>
<td>84</td>
<td>141</td>
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<td>6</td>
<td>ICT Based A/C Transactions (Rs. in millions)</td>
<td>5800</td>
<td>9300</td>
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<tr>
<td>7</td>
<td>Number of No-Frills Accounts (No. in millions)</td>
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<td>13,900</td>
</tr>
<tr>
<td>8</td>
<td>Amount in No-Frills Accounts (Rs. in millions)</td>
<td>7600</td>
<td>10200</td>
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<td>9</td>
<td>Number of No-Frills Accounts with Overdraft (No. in millions)</td>
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<td>10</td>
<td>Amount in No-Frills Accounts with OD (Rs. in millions)</td>
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<td>110</td>
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<td>11</td>
<td>Number of KCCs outstanding (No. in millions)</td>
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<td>3000</td>
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<td>12</td>
<td>Amount in KCCs outstanding (Rs. in millions)</td>
<td>160,000</td>
<td>206,800</td>
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<td>13</td>
<td>Number of GCCs outstanding (No. in millions)</td>
<td>170</td>
<td>210</td>
</tr>
<tr>
<td>14</td>
<td>Amount in GCCs outstanding (Rs. in million)</td>
<td>3500</td>
<td>4200</td>
</tr>
</tbody>
</table>

Source: Adopted from *Report on Trend and Progress of Banking in India 2011-12*
4.3.15. Regulatory framework for the Micro Finance (MF) Sector

The micro finance sector has been contributing significantly towards financial inclusion in India, both in linking the poor with banks and in extending credit to the segment not generally catered by the formal financial system. With the exponential growth in this sector, it was important to formulate regulations to bring necessary transparency and safeguarding millions of beneficiaries. In October 2010, the state of Andhra Pradesh had issued an ordinance which later enacted into a law under which Micro Finance Institutions (MFI) functioning in the state needs to be compulsorily registered. Subsequently, RBI had set up a Committee under the chairmanship of Shri Y H Malegam to study the issues and concerns with regard to interest rates, lending and recovery practices in the MF sector. Based on the recommendations of the Committee, a special category of NBFC-MFIs has been created which will be regulated by RBI. The interest rate for Micro Credit has also been capped.

The proposed regulatory framework puts in place restrictions and safeguards with regard to minimum standards of governance, management and customer protection as well as the financial health of MFIs. The MFI (Development and Regulation) Bill, 2012 is pending in the Parliament. This bill proposes to exempt MFIs registered with and regulated by RBI from state money lending acts. This regulations ensuring growth of the sector as well as protecting the borrowers will go a long way in addressing financial inclusion in the country. Aim of the bill is to regulate the sector in the customers’ interest and to avoid multitude of microfinance legislation in different states.

4.3.16. Special Dispensation Scheme to improve bank presence in the North Eastern Region

To give further fillip for expansion of bank network in the North Eastern Region, this scheme has been undertaken by RBI. Under this scheme, the RBI had undertaken to reimburse a one-time capital cost and recurring expenses for five years to banks for setting up branches at agreed centres in the North Eastern region and state Governments had agreed to provide the necessary premises, security and rental accommodation for the bank staff. This scheme is available for only those branches that have been opened at allotted centres by June 30, 2012.
4.3.17. Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF)

Based on the recommendations of the Committee on Financial Inclusion under the Chairmanship of Dr. C. Rangarajan, two funds were set up in NABARD during 2007-08 viz., FIF for meeting the cost of developmental and promotional activities and FITF for meeting the cost of technology upgradation. The corpus of each fund is Rs.5 billion to be contributed by the GoI, RBI and NABARD in the ratio of 40:40:20 in a phased manner over a period of five years, depending upon utilisation of funds. As of now Government of India has contributed Rs.100 million and NABARD Rs.50 million for each of the two funds.