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Financial Inclusion - IT as enabler

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The Indian banking sector today is grappling with the issue of financial inclusion. Operating cost of providing financial inclusion and charges levied on the users are important dimensions of the process of 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. Against this backdrop, this paper outlines major steps which have been taken so far by the Reserve Bank and Government of India to enable financial inclusion for weaker sections of Indian society. The efforts made by the Reserve Bank in this direction so far, role of Information and Communications Technology (ICT) with focus on Mobile Banking and finally the Unique Identification (UID) number are discussed in detail in this paper.

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Introduction

The Information Technology (IT) saga in Indian Banking sector commenced from the mid eighties when the Reserve Bank of India (RBI) took upon itself the task of promoting computerisation in banking to improve customer services, book keeping, Management Information System (MIS) to enhance productivity. RBI has played the guiding role which helped banks in achieving various objectives such as the introduction of MICR based cheque processing, Implementation of the electronic payment system such as RTGS (Real Time Gross Settlement), Electronic Clearing Service (ECS), Electronic Funds Transfer (NEFT), Cheque Truncation System (CTS), Mobile Banking System *etc*. The Payment and Settlement Systems Act, 2007 (effective from August 12, 2008) designates the RBI as the authority for regulation and supervision of payment systems in India. With increase in reach, size

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and significance of payment systems, the RBI is committed to assuring safe and efficient functioning of payment systems by identifying various risks, addressing risk-reduction by putting in place risk-mitigation measures and mandating appropriate risk. The RBI has also encouraged the setting up of National Payments Corporation of India (NPCI) to act as an umbrella organisation for operating Retail Payment Systems (RPS) in India.

Under the aegis of RBI, the Institute for Development and Research in Banking Technology (IDRBT), was set up in Hyderabad as a research and technology centre for the banking sector for excellence and advancement in technology. This resulted in the commissioning of the INdian FInancial Network (INFINET) as a Closed User Group based network for the exclusive use of the Banking Sector with state-of-the-art safety and security; Certification Authority (CA) functions for ensuring that electronic banking transactions get the requisite legal protection under the Information Technology Act, 2000; Implementation of the National Financial Switch (NFS) to ensure inter-connectivity of shared ATMs and to provide for fund settlement across various banks (now managed by NPCI). IDRBT also provides a platform for transmission of electronic messages across banks using common standards, for facilitating 'Straight Through Processing ' (STP) in the form of Structured Financial Messaging System (SFMS), which is similar to the Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) messaging pattern.

Recognising the need for upgrading the country's financial infrastructure in respect of Clearing and Settlement of debt instruments and forex transactions, The Reserve Bank of India initiated the move to set up the Clearing Corporation of India Ltd. (CCIL). The country's largest bank, State Bank of India, took the lead in setting up of the CCIL. The other core promoters of CCIL are LIC, IDBI, ICICI Bank, HDFC Bank, and Bank of Baroda. CCIL is the country's first clearing house for Government Securities, Repos, Forex and other related market segments.

Section II

Financial Inclusion - Concept and Definition

There is no clear definition of financial inclusion. A few definitions in the literature are mentioned as under:

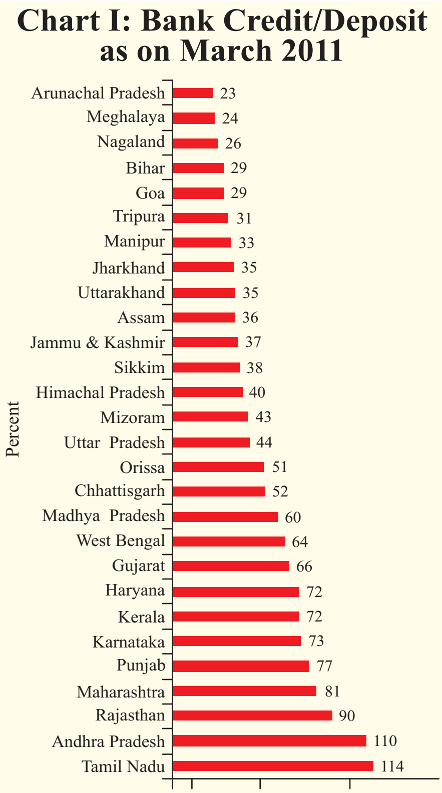
Financial inclusion means delivery of financial services at affordable costs to sections of disadvantaged and low income segments of the society. Defining financial inclusion is considered crucial for identifying the factors that lead to low level of access to the financial system. As measuring inclusion is perceived to be difficult, financial inclusion is generally defined in terms of exclusion from the financial system. However, financial inclusion is not just about physical access caused by the changing topography of financial services. Therefore, the debate has now broadened to include all types of people who make little or no use of financial services and the processes of financial exclusion (Ford and Rowlingson, 1996; Kampson and whyley, 1998).

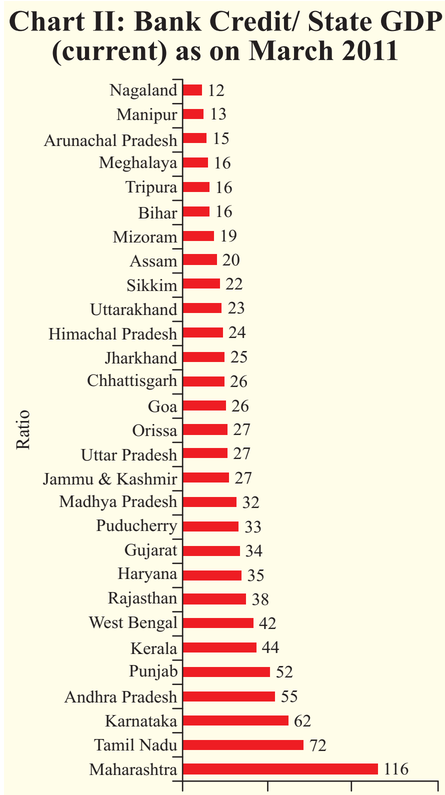
“The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”-The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan, 2008)

In most developing countries, a large population particularly of low income, has very little access to financial services. As a consequence, many of them have to necessarily depend either on their own or informal sources of finance and generally at an unreasonably high cost. A report of the National Sample Survey Organisation (NSSO) mentions that 76 per cent of the rural households in the country depend on loans from moneylenders as their source of finance.

Financial inclusion, as far as banks are concerned, seems to be geographically limited to some parts of the country. In order to analyse the spread of banking services, two ratios *i.e.* (i) State wise Banks Credit - deposit ratio (Chart I) and (ii) amount of bank credit with the State GDP (Chart II) are calculated.

In some states, the credit-deposit ratios are very low, implying *inter alia,* that their funds are not being used by the state. Perhaps the





root cause may be the financial exclusion. This also indicates that banks are reluctant in giving credit to these states due to variety of reasons. The credit - deposit ratios of some states are Tamil Nadu (114 percent), Maharashtra (81 percent), Utter Pradesh (44 percent) and lowest is in Arunachal Pradesh. Thus it is clear that some parts of the country are under-banked especially the north-east. On the other hand, the southern states are known to have a strong bank branch network and hence their CD ratio is high.

If we take the gross domestic product of the states and compare with the amount of bank credit, the ratio should be more or less the same. That would mean that banks are lending their funds in proportion to the size of the state economy. But there are wide variations in the credit/state GDP ratio. North-East states are at the bottom with credit/ state GDP is less than 18 percent. For Bihar too, this percentage is as low as 16 percent. At the other end, Maharashtra, credit/state GDP ratio at 116 percent and ratio is similar for the states of Tamil- Nadu and Karnataka. From the analysis, it is clear that states such as Uttar Pradesh, Bihar, Chhattisgarh and the North-East states are receiving far less bank credit than warranted by the size of the state economy.

Main factors affecting access to financial services: The financial inclusion can be seen to have two categories of barriers, *viz.*, demand and supply side barriers. The factors that drive these barriers are listed as under:

Demand Side Barriers: The barriers arising out of the demand side factors may be characterized by the following features**:**

Complexity: The excluded sections of the society find financial services complex in nature. They see no reason to go to the banks for conducting small transactions, which in their opinion, are time consuming and perplexing

Place of living: Generally commercial banks operate only in commercially profitable areas and it would not be viable for banks to open branches in the remote villages. People who live in under developed areas find it very difficult to reach the nearest bank due to transportation cost and wages lost in travelling to the bank

Limited literacy: Financial illiteracy and lack of basic education are prohibiting factors leading to non-access of financial services.

Convenience and affinity towards informal sector: The excluded section of the society finds informal sector (such as the money lender or the pawn-broker) more user-friendly and accessible and as such, they develop an affinity which always drives them to approach this sector for their credit needs.

Supply Side Barriers: The supply side of barriers though not many, may be characterised by the following features:

Legal identity: Inability to provide a legal identity such as voter id, residence proof, birth certificates, *etc*. often exclude women and migrants from accessing financial services.

Outreach Issue: Very often, even if a person is bankable, the distances are too long for services & supporting the accounts at reasonable costs.

Section III

Technological Developments in Banks

Developments in the field of Information Technology (IT) strongly support the growth and inclusiveness of the banking sector, thereby facilitating inclusive economic growth. IT not only enhances the competitive efficiency of the banking sector by strengthening back-end administrative processes, it also improves the front-end operations and helps in bringing down the transaction costs for the customers. It has the potential of furthering financial inclusion by making small ticket retail transactions cheaper, easier and faster for the banking sector as well as for the small customers. The Reserve Bank has, thus, been actively involved in harnessing technology for the development of the Indian banking sector over the years.

A major technological development in banking sector is the adoption of the Core Banking Solutions (CBS). CBS is networking of branches, which enables customers to operate their accounts and avail of banking services from any branch of the Bank on CBS network, regardless of where the customer maintains his/her account. The customer is no more the customer of a Branch as he becomes the Bank's customer. Thus, CBS is a step towards enhancing, customer convenience through, Any-where, Anytime Banking. It is important to leverage on to this technological advancement to look at areas beyond CBS that can help in not just delivering quality and efficient services to customers but also generating and managing information effectively.

Another major technological development, which has revolutionised the delivery channel in the banking sector, has been the growth of Automated Teller Machines (ATMs). The banking space has seen considerable growth through the ATMs, (approximately 87000 ATMs at present) but the same has been restricted principally to the urban/metro areas. As per the existing rules/regulations, only banks are being permitted to set up ATMs in urban/metro areas. Tier III to VI unbanked/under banked areas have not witnessed much ATM presence.

In the above context, RBI has reviewed the extant policy on ATMs and it has been decided to permit non-banks to set up, own and operate ATMs to accelerate the growth and penetration of ATMs in the country. Such ATMs will be in the nature of White Label ATMs (WLA) and would provide ATM services to customers of all banks. Non-bank entities proposing to set up WLAs have to make an application to RBI for seeking authorisation under the Payment and Settlement Systems Act 2007.

Development of National Payment Systems: The payment system could be broadly divided in two segments:

Paper-based Payments: Use of paper-based instruments (like cheques, drafts etc.) account for nearly 60 percent of the volume of total non-cash transactions in the country. In value terms, the share is presently around 11 percent. Reserve Bank had introduced Magnetic Ink Character Recognition (MICR) technology for speeding up and bringing in efficiency in processing of cheques. Recent developments in paper-based instruments include launch of Speed Clearing (for local clearance of outstation cheques drawn on core-banking enabled branches of banks) and introduction of cheque truncation system (to restrict physical movement of cheques and enable use of images for payment processing).

Electronic Payments: The overall thrust is to reduce the use of paper for transactions and move towards electronic mode. Following are various electronic payment services available in the country:

Electronic Clearing Service (ECS)/National ECS (NECS): ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, *etc.*, or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium *etc*. Essentially, ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa.

National Electronic Funds Transfer (NEFT): NEFT is a payment system facilitating one-to-one funds transfer. Under this, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. Thus, this is an interbank fund transfer system.

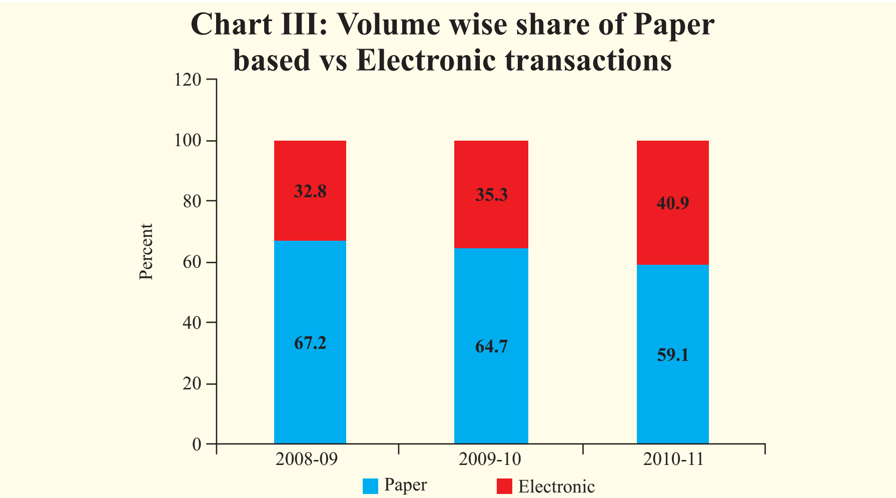
Real Time Gross Settlement (RTGS) System:

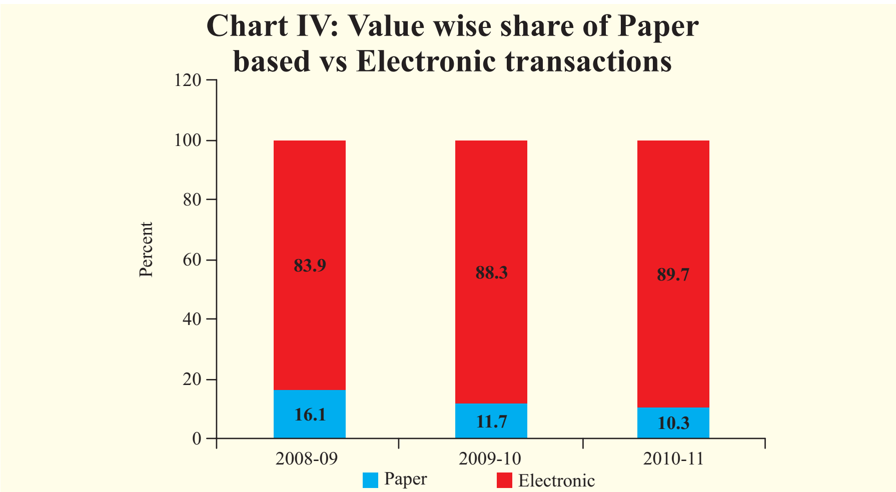
This Real Time Gross Settlement is a continuous (real-time) settlement of funds transfer individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time. 'Gross Settlement' means the settlement of funds transfer instruction occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.

Pre-paid Payment Systems: Pre-paid instruments are payment instruments that facilitate purchase of goods and services against the value stored on these instruments. The pre-paid payment instruments can be issued in the form of smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.

Point of Sale (POS) Terminals / Online Transactions: There are over five lakh POS terminals in the country, which enable customers to make payments for purchases of goods and services by means of credit/debit cards. To facilitate customer convenience the Bank has also permitted cash withdrawal using debit cards issued by the banks at POS terminals.

The efforts of RBI aimed at promoting electronic payment systems *vis-à-vis* paper based payments are evident, with both the value and volumes of these systems registering impressive growth rates as shown in the following charts III and IV.





Section IV

RBI's Efforts for Financial Inclusion

The brief outline of the efforts pursued by the RBI for financial inclusion are:

No frills accounts: The Annual Policy Statement of April 2005, while recognising the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. In many banks, the requirement of minimum balance and charges levied, although accompanied by a number of free facilities, deter a sizeable section of population from opening / maintaining bank accounts. In this context, with a view to achieving the objective of greater financial inclusion, all banks were advised to make available a basic banking 'no-frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population.

Easier credit facility: RBI asked banks to introduce a General Credit Card (GCC) facility up to ₹ 25,000, for their constituents in rural and semi-urban areas, with a view to providing credit card like facilities in rural areas with limited point-of-sale (POS) and limited automated teller machine (ATM) facilities, based on the assessment of income and cash.

Simpler Know Your Customer (KYC) norms: In a country, where most of the low income and poor people do not have any identity proof or proof of address, it is very difficult to have KYC norms that insist on production of such documents. In order to ensure that people belonging to low income group in urban and rural areas do not encounter difficulties in opening bank account, the KYC procedure for opening accounts was simplified for those accounts with balances not exceeding ₹ 50,000 and credit thereto not exceeding ₹ 100,000 in a year.

Bank branch and Automated Teller Machines (ATM) expansion liberalization: In the October 2009 Policy Review, RBI took a further big step by freeing branch opening in towns and villages with population below 50,000. Domestic scheduled commercial banks (other than RRBs) are now free to open branches in towns and villages with less than 50,000 population and are enjoined to ensure that at least one-third of such branch expansion happens in the underbanked areas. This will be one of the criteria in the Reserve Bank's consideration of proposals by banks to open branches in major city (tier 1) centres. In order to ensure fair pricing and enhanced access of the ATMs which have already gained prominence as a delivery channel for banking transactions in India, RBI under its "Free ATM access policy" since April 01, 2009 ensures that no charges are payable for using other banks' ATM for cash withdrawal and balance enquiry. However, banks can restrict the number of such free transactions to a maximum of five per month.

Business correspondent (BC)/ Business Facilitators (BF) model - Branchless banking:

With the objective of ensuring greater financial inclusion and increasing outreach of the banking sector, the Reserve Bank, in January 2006 permitted banks to use intermediaries as Business Facilitators (BF) / Business Correspondents (BC) for providing financial and banking services leveraging upon the Information and Communication Technology (ICT). The BCs were allowed to conduct banking business as agents of the banks at places other than the bank premises. The categories of entities that could act as BCs were also specified.

The Business Facilitators (BFs) may be used for facilitation services which may include identification of borrowers, collection and preliminary processing of loan applications, creating awareness about bank products and education and advice on managing money and debt counseling, processing and submission of application to banks, promotion of Self Help Groups/ Joint Liability Groups, post sanction monitoring, follow up for recovery, *etc*. No approval of RBI is required for using business facilitators for the services mentioned above.

Individual BCs / Institutional BCs, apart from the above services can disburse small value credit, recover principal/ collect interest, collect small value deposits, sell micro insurance/mutual fund products/ pension products/other third party products, receive and deliver small value remittance / other payment instruments. While banks may pay reasonable commission/ fee to the BFs / BCs, bank's agreement with the BFs / BCs should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank. In order to establish itself, the BC Model had to overcome three hurdles that are common to any new payments system which are discussed below.

Trust/Brand: Banks should ensure that the customers are comfortable and have confidence and reliability in the new system which may increase strong customer sense of affinity with and trust in the operator. Banks need to constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by BFs /BCs and give wide publicity about it through electronic and print media. Banks should also provide the environment to BC like his own employee and redress their problems so as to motivate them to work sincerely.

Outreach and education: The value to the customer of a payment system depends on the number of people connected to and actively using it. So the presence of the BC is required in the area so that either he can visit the person or person can approach him in case of any transaction. In order to retain BC reasonable remuneration and incentive pay is required. RBI may ensure interoperability of BCs so that people may have the choice to choose them for the business transcations.

Viable business model/pricing: The viability of the BC model has remained the most critical issue which has led to the model not taking off as envisaged. A majority of no-frill accounts opened by BCs have remained non-operational. As such, opening of the accounts to provide deposit services to begin with and subsequently widen the coverage of activities, with a view to making these accounts profitable, have not made the desired progress. In order to ensure that accounts are operational there is a need for legislation from the Government making it mandatory to transfer all the social benefits through these accounts. Once this is done the banking habit will start developing.

Monitoring of BCs - role of ICT - In order to achieve the above, banks should closely monitor the BCs during their course of their periodical visits to the branches. Banks may devise an Off-Site Real Time Monitoring system, a mobile-based IT initiative which uses a combination of GPS (Global Positioning System) and GPRS (General Packet Radio Services) technologies through cell phones for monitoring the same. Banks have to invest one-time cost for software package development, procurement of cell phones and charges for GPRS connectivity. The GPRS technology allows cell phones to capture real time images of BC at work with the date and time of the picture as well as the stamp of latitude and longitude alongside the image, superimposed on a Google map layer.

The facility to register a complaint through SMS against BC which should go to the concerned officials under that jurisdiction, time line for redressal, should also be fixed. This will build confidence in the business model and make it a success.

Section V

Mobile Banking: Why a Requirement of a New Banking Channel?

Nowadays, more than 60 percent of the population is in possession of a mobile phone. This includes a large section of the rural population. People have started understanding the value, convenience and ease of owning a mobile phone. Mobile banking has come in handy because of little or no infrastructure cost to the bank and no additional investment from customers. So this may be a useful channel where most of the population is unbanked. Mobile Phone, a Personal Device, which increases security though Second Factor Authentication, may also be added. On comparing mobile banking with branch banking and internet banking mobile, mobile banking could be most accessible with lowest cost of services

What exactly is a mobile based payment? With mobile devices becoming integral to people's lives, banks are seeking to leverage the ubiquity of mobile phones to create a cost-effective distribution channel, rapidly innovate, extend reach across segments and improve convenience and security of use. However, due to consumer concerns regarding security, the adoption of this channel for value-based transactions has been limited. One of the issues with mobile payments in the market today is the lack of clear and shared information across the industry.

Mobile based payment: Mobile based payment is defined as a payment (transfer of funds) where the mobile phone is involved in the initiation and confirmation of the payment. The location of the payer is not important: he may or may not be 'mobile' or 'on the move' or at a Point of Sale. The mobile payment would make use of cash redundant.

One could pay a vegetable vendor/ *kirana* shop payment, who displays a mobile Number and MMID at shop, instantaneously. In India, it has been decided to adopt the bank-led model.

National Payments Corporation of India (NPCI), a company under Companies Act, incorporated in December 2008 is facilitating the Interbank Mobile Payment Service (IMPS). IMPS is a money transfer system in which one can send money to other bank accounts instantly, the sender should use mobile banking to send money, the receiver mobile number should be registered with his bank and the money is credited to receivers account instantly .

For registration the Remitter must register for mobile banking and get Mobile Money Identifier (MMID) & Mobile Banking Pin (MPIN) for initiation of a transaction. MMID is a 7 digit number, to be issued by the bank to the customer upon registration and the Beneficiary must Register his / her mobile number with the bank account and get MMID. A remitter can initiate an IMPS transaction by sending a SMS to his bank typing the Beneficiary Mobile Number, Beneficiary MMID and Amount. The receiver will get a SMS confirmation for the credit of his account.

Section VI

Unique Identification Number (UID): Why a New ID?

A challenge for residents in India, particularly the underprivileged, is the lack of documentation that they have to make available to establish their identity. Many of India's poorest residents do not have basic identity documentation such as a birth certificate, or a proof of address such as an electricity bill. These residents are consequently unable to access services and resources – such as opening a bank account – since they are unable to fulfil the KYC (Know Your Customer) requirements these agencies have. The challenges increase when people migrate, since most identification documentation in India is provided by local administration and invalid when the person crosses state lines.

UID, *i.e.,* Aadhaar is a 12-digit unique number issued by the Unique Identification Authority of India (UIDAI) to all Indian residents after collecting and verifying their demographic (*e.g.,* location) and biometric (*e.g.,* fingerprint, iris) data. The information in the database will be used only for authentication purpose. If anyone seeks to authenticate the identity of another person using the *Aadhaar* database, he/she will only receive a response in the affirmative or the negative. The Aadhaar database will not transmit information or share data with anyone.

Aadhaar will become the single source of identity verification. Residents would be spared the hassle of repeatedly providing supporting identity documents each time they wish to access services such as obtaining a bank account, passport, driving license and so on. By providing a clear proof of identity, *Aadhaar* will also facilitate entry for poor and underprivileged residents into the formal banking system and the opportunity to avail services provided by the government and the private sector.

AADHAAR enabled bank accounts will be opened for every resident, with his consent. It is envisaged that disbursement of social security benefits like pension, scholarships, MGNREGS wages, *etc.* would be through *Aadhaar* enabled bank account. UIDAI is actively working with states/central ministries to designate *Aadhaar* enabled accounts for disbursal of all social security benefits. The individual would be able to access his/her *AADHAAR* enabled bank account through a low cost interoperable micro-ATM network which will have large geographical reach .

MICRO ATM and role of UID

With the government keen on expanding financial inclusion, the Indian Banks' Association (IBA) is working out a strategy to facilitate branchless banking in villages. Remote villages with a population of just 2,000 could get micro Automatic Teller Machines (ATM) for banking transactions, which would effectively meet a promise to this effect in Budget 2010-11. Finance Minister Pranab Mukherjee had said in his Budget speech that all villages with a population in excess of 2,000 would get banking facilities by March 2012.

Micro ATM meant to be a device that is used by a million Business Correspondents to deliver basic banking services. The platform will enable Business Correspondents (who could be a local *kirana* shop owner and will act as 'micro ATM') to conduct instant transactions.

The micro platform will enable function through low cost devices (micro ATMs) that will be connected to banks across the country. This would enable a person to instantly deposit or withdraw funds regardless of the bank associated with a particular BC. This device will be based on a mobile phone connection and would be made available at every BC. Customers would just have to get their identity authenticated and withdraw or put money into their bank accounts. This money will come from the cash drawer of the BC. Essentially, BCs will act as bank for the customers and all they need to do is verify the authenticity of customer using customers' UID. The basic transaction types, to be supported by micro ATM, are Deposit, Withdrawal, Fund transfer and Balance enquiry

Section VII

Could Post Office Network be used for Financial Inclusion?

India Post is largest in the world Post network which covers over 1.55 lakh branches which is larger than all commercial banks in India put together. As on 31st March 2010, the number of rural post offices in the country was 1, 39,182 (89.81 per cent) and number of urban post offices 15,797 (10.19 per cent). The existing set up where 89.81 per cent branches are in rural area most suited to the mission of financial inclusion. On an average 7,176 people served by the post offices; 5,682 in rural and 20,346 in the urban areas. Average area served by one post office is 21 km.

While appointing individuals as BCs, banks have to ensure that these individuals are permanent residents of the area in which they propose to operate as BCs and also institute additional safeguards as appropriate to minimise agency risk. However, in case the post office lead model is chosen, the above issue would be resolved automatically.

Indian post needs no introduction and it provides the cheapest reliable services to the citizen of the country. The network of Indian post by and large covers entire nation especially the rural areas. Post offices are already connected with lease line/broadband *etc* with the power backup and it is easy to enhance further capacity rather than creating a new setup. Post offices are providing remittance facility and citizen can track the status of the transaction through the branch. It has established Grievance redressal mechanism. The improvement in the performance level of the identified post offices has been carried by external audit, enchasing trust in the organisation.

The engagement of BCs by banks for delivery of banking services exposes banks to multiple types of risks: (i) credit risk (ii) operational risk (iii) legal risk (iv) liquidity risk and (v) reputational risk. To mitigate such risk banks need to take appropriate action. In case of post office, risk management will be robust.

Almost all BC transactions are cash based; the flow of cash with BCs has been highlighted as the biggest issue. Besides the logistics of handling large volumes of cash, it leads to increased costs and added operational risks. Since post offices are already managing the Post Office Savings Bank accounts, the risk of cash handling would be mitigated. Banks may have agency arrangement with the post offices which may benefit the both. Though the viability of the BC model is still questionable, the chances of success of the post office model are positive.

Given the vast network of the post office across country, Indian post offers the facility to collect consumer's bills on behalf of service providers from telephone /electricity /mobile phone *etc.*, through retail post. Also it provides various retail services to the citizens of the country. The Post Office Saving Bank (POSB) is the oldest and largest banking institution in the country. It operates 240 million saving accounts. POSB is a agency function performed by the Department of Post on behalf of ministry of finance, Government of India. Presently eight saving schemes are operated across country. These are saving account, Recurring Deposit, Time Deposit, Monthly Income Scheme, Public Provident Fund, Kisan vikas Patras, National Saving Certificates and Senior citizen saving scheme.

In order to leverage the vast network, Provident Fund Development Regulatory Authority (PFRDA) of India has entered into a MoU with the

Department of post for retailing of the new pension scheme at various post offices. As regards the BCs, the scope of activities that could be undertaken include (i) disbursal of small value credit, (ii) recovery of principal / collection of interest (iii) collection of small value deposits (iv) sale of micro insurance/ mutual fund products/ pension products/ other third party products and (v) receipt and delivery of small value remittances/ other payment instruments. All these services are already taken care of by the postal department, so it would be a viable model in case post department can also be given partnership in the financial inclusion initiatives.

Section VIII

Conclusion

The entire emphasis of the Government, RBI and banks is to open more accounts. However, mere opening the account will not help furthering the cause of financial inclusion. The people working in unorganised sector who often deal through middleman and fall into traps/ clutches of private money lenders need to be targeted to include them under financial inclusion. There is a need that the payment for social schemes should be done through account payment so that issue of money pilferage will be plugged. Financial inclusion requires consistent efforts which will come at a cost, as banks are profit making organisations, The Government should make a budgetary provision for the cost and reimburse banks accordingly. Banks should also provide doorstep banking services to them as an incentive so that other people also join the inclusion programme of banks.

In the existing system, the cash is drawn from the BCs drawer and simultaneously the account of the BC in the bank is credited. Once BC model gathers popularity, there may be an issue in management of cash with BC at hand and needs to be addressed for the success of the BC model. The cash availability, consumer protection and quality of service delivery could be assured with the promotion and encouragement of Institutional BCs.

For the real success of the BC model, the salary/ charges to the BC should be rationalized. There is also a need to incentivise BC for good work. The banks should show interest to recruit business correspondents (BCs) and this may create employment opportunities for rural youth, including women. There is a need for constant monitoring of the services of the BCs which should be ensured through social audit that BCs should not take any commission/charges from the persons.

One of the reasons for slow progress in financial inclusion is absence of reach and coverage by banks. This gap now can be bridged through the user of information and communication technology. Mobile banking / Micro ATM offers one of the most promising options for providing financial services to the unbanked population. Mobile banking has taken off from an urban prospective where an existing client of the bank is getting additional avenues to access his bank account and doing banking transactions. Till now the potential of achieving financial inclusion through mobile banking appears to be missing completely for rural customers.

The main reason for slow inclusion by banks is the absence of delivery model and products designed to satisfy the low income families. The provision of uncomplicated, small, affordable products will help to bring the low income families into the formal financial sector. Banks have limitations to reach directly to the low income consumers. The use of technology and using economies of scale will, however bring down the cost of transaction to the banks and it will be a win - win position for both banks and customers.

Financial inclusion and the extension of financial services to every citizen of the country is a priority for the Government. The goal of financial inclusion cannot be achieved without the help of technology. The enrolment to UID and UID enabled bank account will be a game changer in the entire process of financial inclusion plan.

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