Financial Inclusion and Literacy in India - A Critical Study

***V. Arockia Jerold**

"The Future lies with those companies, who see the poor as their customers"

- C.K.Prahald.

INTRODUCTION:

The Indian economy is growing at a steady rate of 8.5% to 9 % since the last five years. Most of the growth is from industry and services sector. Agriculture is growing at a little over 2%. The potential for growth in the primary & small and medium enterprise sector is enormous. Limited access to affordable financial services such as savings, loan, remittance and insurance by the vast majority of the population in the rural & unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors. The banking sector has shown a tremendous growth in volume & complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the under-privileged sections of the society, into the fold of basic banking services.

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of dis-advantaged and low income groups. Unrestrained access to public goods and services is the sine quanon of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. Financial inclusion can be thought of in two ways. One is exclusion from the payment systems-not having access to a bank account. The second type of exclusion is from formal credit markets requiring the excluded to approach informal and exploitative markets. After nationalization of major banks in India in 1969, there was a significant expansion of branch network to unbanked areas and stepping up of lending to agriculture, small industry and business. More recently, the focus is on establishing the basic right of every person to have access to affordable banking services. Financial exclusion may lead to increased travel requirements, higher incidence of crime, general decline in investment, difficulties in gaining access to credit or getting credit from informal sources at exorbitant rates and increased unemployment. The small business may suffer due to loss of access to middle class and higher income consumers, higher cash handling costs, delays in remittances of money. According to certain research, financial exclusion can lead to social exclusion.

ELEMENTS OF FINANCIAL INCLUSION:

Financial Inclusion rests on three pillars - access to financial services, affordability of such services and actual utilization of such services. Financial Inclusion can be achieved only if all the three pillars show affirmative results. Thus the ABC of Financial Inclusion is Advice, Banking and Credit. It must also be focused that while for developing countries like India, generally the process of financial inclusion starts with opening of savings bank accounts. The process, at a later stage, must also incorporate credit facilities and other financial services such as insurance. Thus promotion of financial inclusion would require holistic and coherent approach on the part of the banking industry as also the regulator RBI (Reserve Bank of India) and the GOI (Government of India).

HISTORY OF FINANCIAL INCLUSION - SINCE EARLY 1990'S

1904	-	Co-operatives Societies Act
1954	-	Rural Credit Survey Committee
1955	-	SBI created for Rural Penetration
1969	-	19 Commercial Bank nationalized. All India Rural Credit Review Committee
1970	-	Lead Bank Scheme - States / Districts
1975	-	Regional Rural Bank - Hybrid Banks
1981	-	6 more Commercial Banks nationalized
1992	-	SHG - Bank Linkage Programme
2001	-	Kissan Credit Card / Gramin Tatkal Card
2006	-	Committee on Financial Inclusion set up
2007	-	Setting up 2 Funds - Financial inclusion fund and Financial technological fund of Rs 500 Crore each to facilitate easy availability of credit to the poor

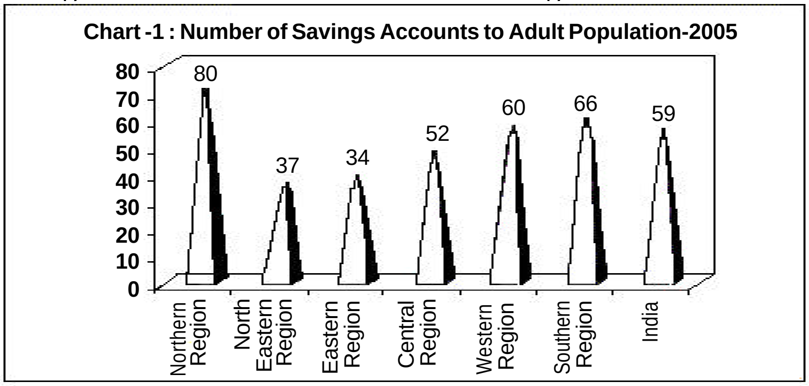
MEASURES OF FINANCIAL EXCLUSION:

One common measure of Financial Inclusion is the percentage of adult population having bank accounts (CHART - 1). Going by the available data on the number of savings bank accounts and assuming that one person has only one account, (which assumption may not be correct as many persons could have more than one bank account), we find that on an all India basis, 59 percent of the adult population in the country have bank accounts - in other words 41

*****Senior Lecturer, Panimalr Institute of Management Studies & Computer Science, Chennai, Tamil Nadu. Email : vajmba2006@yahoo.co.in*

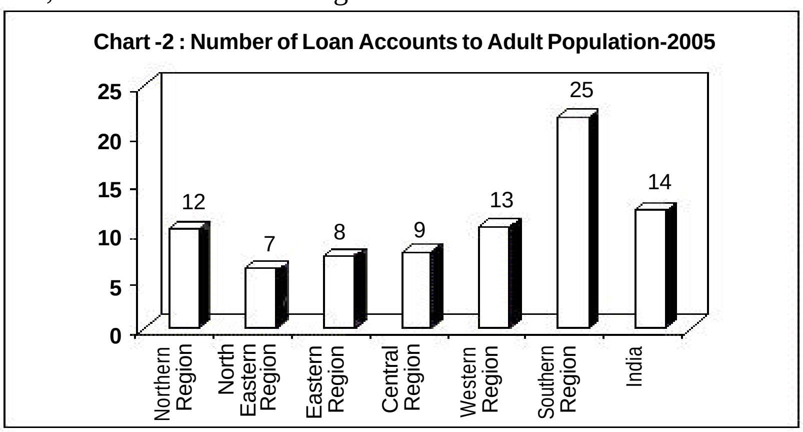
percent of the population is unbanked. In rural areas, the coverage is 39 percent against 60 per cent in urban areas. The unbanked population is higher in the North -Eastern and Eastern regions.

CHART -1



The extent of exclusion from credit markets is much more, as number of loan accounts constituted only 14 percent of adult population (CHART-2). In rural areas, the coverage is 9.5 percent against 14 percent in urban areas. Regional differences are significant with the credit coverage at 25 percent for the Southern Region and as low as 7, 8 and 9 percent respectively in North Eastern, Eastern and Central Regions.

CHART -2



The extent of exclusion from credit markets can be observed from a different view point. Out of 203 million households in the country, 147 million are in rural areas - 89 million are farmer households. 51.4 per cent of farm households have no access to formal or informal sources of credit while 73 per cent have no access to formal sources of credit. The share of moneylenders in providing credit to cultivator households fell from 36.1 % in 1971 to 16.1 % by 1981. This fall is accounted due to bank nationalization. However, it has risen again to 26.8 % in 2002. This indicates that institutional sources of credit, such as banks and co-operative societies are unable to meet the farmer's needs. Even more worrying is the spate of farmer's suicides because they couldn't repay loans. (TABLE-1)

TABLE-1 : Relative Share of Borrowing of Cultivator Households (per cent)

Sources of Credit	1951	1961	1971	1981	1991	2002$
1	2	3	4	5	6	7
Non-institutional	**92.7**	**81.3**	**68.3**	**36.8**	**30.6**	**38.9**
of which:						
Moneylenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	**7.3**	**18.7**	**31.7**	**63.2**	**66.3**	**61.1**
of which:						
Co-operative societies, etc.	3.3	2.6	22.0	29.8	30.0	30.2
Commercial banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	-	-	-	-	3.1	-
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

DIFFICULTIES IN PROMOTING INCLUSIVE BANKING:

Some of the perceived difficulties in doing business with customers include:

- Small sized transaction • Customers scattered over wide areas • Lack of clearly defined propriety rights
- Lack of clearly defined property rights • Risks faced by small producers need to be assessed and factored into product pricing

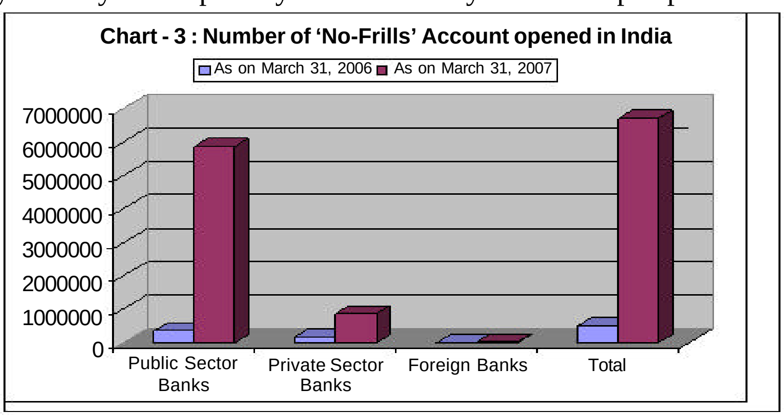
The Rural customer segments do need finance and in the absence of any alternative, depend on unorganized financial system, which utilizes local knowledge, operates quite flexibly and offers finance for a wide variety of purposes, though at a very high cost. Banks therefore need to think in terms of designing their products in such a manner that they are able to cater to the needs of the rural customers. Banks also need to have flexibility in terms of working hours, documentation, mode of interactions and transactions and need to explore ways to generate and utilize local knowledge for effective loan monitoring and risk mitigation.

STRATEGIES AND APPROACH TOWARDS FINANCIAL INCLUSION:

At the regional level, a forum called the State Level Bankers' Committee (SLBC) has been in operation since nationalization. SLBC is a group of bankers and government officials and is convened by a bank having major presence in the State called the SLBC convenor bank. It meets quarterly and reviews the banking developments in the State. At the district level, the district level committee functions; it is headed by the District Commissioner and is convened by a designated lead bank for the district. In early 2006, one district in each State was identified by the SLBC for 100 per cent financial inclusion. So far, SLBCs have reportedly achieved 100 per cent financial inclusion in the Union Territory of Puducherry and in some districts in Haryana, Himachal Pradesh, Karnataka, Kerala and Punjab. Reserve Bank proposes to undertake an evaluation of the progress made in these districts by an independent external agency to draw lessons for further action in this regard.

In the districts taken up for 100% financial inclusion, surveys were conducted using various data base such as electoral rolls, public distribution system, or other household data, to identify households without bank account and responsibility given to the banks in the area for ensuring that all those who wanted to have a bank account were provided with one by allocating the villages to the different banks. Mass media was deployed for creating awareness and publicity. The banks used different approaches to communicate the advantages of having a bank account. Bank staff or their agents who are usually local NGOs or village volunteers would contact the people at their households. Ration card / Electoral ID cards of the families were taken for fulfilling the simplified KYC norms. Photographs of all the persons who opened bank accounts were taken on the spot by a photographer accompanying the bank team. In most States, the product used for launching the program for financial inclusion is the 'No frills' accounts. In one State, the farmer's credit card or KCC is being used, ensuring first to credit rather than savings. In other States no frills account was followed by small overdraft facility or a general purpose revolving credit upto pre-specified limit. Recognizing the need for providing social security to vulnerable groups, in some cases in association with insurance companies, banks have provided innovative insurance policies at affordable cost covering life, disability and health cover. Cooperative banks and regional rural banks being local level institutions are well suited for achieving financial inclusion. These banks are being revived and strengthened with incentives for better governance. Being local institutions, they are ideally suited for achieving FI.

The role of an efficient payments system for FI cannot be overstressed and efforts are being made to bring about Improvements in the payments system especially in the relatively less developed parts of the country.



The outcome of the efforts made is reflected in the increase of 6 million new 'no frills' bank accounts opened between March 2006 and 2007. In view of their vast branch network (45000 rural and semi urban branches) public sector banks and the regional rural banks have been able to scale up their efforts by merely leveraging on the existing capacity. FI is being viewed by these banks as a huge business opportunity in an overall environment that facilitates enterprise and growth. It provides them a competitive advantage and defines a clear niche for their growth.

INTERNATIONAL EXPERIENCE IN PROMOTING FINANCIAL INCLUSION:

An interesting feature which emerges from the international practice is that the more developed the society is, the greater the thrust on empowerment of the common person and low income groups. It may be worthwhile to have a look at the international experience in tackling the problem of financial exclusion.

The Financial Inclusion Task Force in UK has identified three priority areas for the purpose of financial inclusion-access to banking, access to affordable credit and access to free face-to-face money advice. UK has established a Financial Inclusion Fund to promote financial inclusion and assigned responsibility to banks and credit unions in removing financial exclusion. Basic bank no frills accounts have been introduced. An enhanced legislative environment for credit unions has been established, accompanied by tighter regulations to ensure greater protection for investors. A Post Office Card Account (POCA) has been created for those who are unable or unwilling to access a basic bank account. The concept of a Savings Gateway has been piloted. This offers those on low-income employments £1 from the state for every £ 1 they invest, up to a maximum of £25 per month. In addition, the Community Finance Learning Initiatives (CFLIs) were also introduced with a view to promoting basic financial literacy among housing association tenants.

A civil rights law, namely Community Reinvestment Act (CRA) in the United States prohibits discrimination by banks against low and moderate income neighborhoods. The CRA imposes an affirmative and continuing obligation on banks to serve the needs for credit and banking services of all the communities in which they are chartered. In fact, numerous studies conducted by Federal Reserve and Harvard University demonstrated that CRA lending is a win-win proposition and profitable to banks. In this context, it is also interesting to know the other initiative taken by a state in the United States. Apart from the CRA experiment, armed with the sanction of Banking Law, the State of New York Banking Department, with the objective of making available the low cost banking services to consumers, made mandatory that each banking institution shall offer basic banking account and in case of credit unions, the basic share draft account which is in the nature of low cost account with minimum facilities. Some key features of the basic banking account are worth-mentioning here.

- the initial deposit amount required to open the account shall not exceed US $ 25
- the minimum balance, including any average balance, required to maintain such account shall not exceed US $ 0.10
- the charge for periodic cycle for the maintenance of such accounts to be declared up front
- the minimum number of withdrawal transactions which may be made during any periodic cycle at no charge to the account holder must at least be eight
- a withdrawal shall be deemed to be made when recorded on the books of the account holder's banking institution
- except, as provided below, an account holder shall not be restricted as to the number of deposits which may be made to the account without incurring any additional charge
- the banking institution may charge account holders for transactions at electronic facilities which are not operated by the account holder's banking institution as well as other fees and charges for specific banking services which are not covered under the basic banking account scheme
- Every periodic statement issued for the basic banking account should invariably cover on it or by way of separate communiqué maximum number of withdrawals permitted during each periodic cycle without additional charge and the consequences of exceeding such maximum and the fee if any, for the use of electronic facilities which are not operated by the account holder's banking institution.

An interesting feature of basic banking account scheme is the element of transparency i.e. the banking institution should, prior to opening the account, furnish a written disclosure to the account holder describing the main features of the scheme i.e. the initial deposit amount required to open the account, minimum balance to be maintained, charge per periodic cycle for use of such account, maximum number of withdrawal transactions without any additional charge and other charges imposed on transactions for availing electronic facility not operated by the account holder's banking institution, etc.

INDIAN SCENARIO:

Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 68,282 branches as at the end of March 2005. The average population per branch office has decreased from 64,000 to 16,000 during the same period. However, there are certain under-banked states such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Jharkhand, West Bengal and a large number of North-Eastern states, where the average population per branch office continues to be quite high compared to the national average. As you would be aware, the new branch authorization policy of Reserve Bank encourages banks to open branches in these under banked states and the under banked areas in other states. The new policy also places a lot of emphasis on the efforts made by the Bank to achieve, inter alia, financial inclusion and other policy objectives.

One of the benchmarks employed to assess the degree of reach of financial services to the population of the country, is the quantum of deposit accounts (current and savings) held as a ratio to the adult population. In the Indian context, taking into account the Census of 2001 (ignoring the incremental growth of population thereafter), the ratio of deposit accounts (data available as on March 31, 2004) to the total adult population was only 59% (details furnished in the below table). Within the country, there is a wide variation across states. For instance, the ratio for the state of Kerala is as high as 89% while Bihar is marked by a low coverage of 33%. In the North Eastern States like Nagaland and Manipur, the coverage was a meager 21% and 27%, respectively. The Northern Region, comprising the states of Haryana, Chandigarh and Delhi, has a high coverage ratio of 84%. Compared to the developed world, the coverage of our financial services is quite low. For instance, as per a recent survey commissioned by British Bankers' Association, 92 to 94% of the population of UK has either current or savings bank account.

Coverage of Banking Services (Ratio of Demand Deposit Accounts to the adult population)

Region/State/ Union Territory	Current Accounts	Savings Accounts	Total Population	Adult Population (Above 19 years)	Total No. of accounts	No. of acc. Per 100 of population	No. of acc. Per 100 of adult pop.
NORTHERN REGION	4215701	52416125	132676462	67822312	56631826	43	84
Haryana	572660	8031472	21082989	11308025	8604132	41	76
Himachal Pradesh	134285	2433595	6077248	3566886	2567880	42	72
Jammu & Kashmir	277529	3094790	10069917	5379594	3372319	33	63
Punjab	1156137	13742201	24289296	14185190	14898338	61	105
Rajasthan	689657	12139302	56473122	28473743	12828959	23	45
Chandigarh	80607	1126696	900914	546171	1207303	134	221
Delhi	1304826	11848069	13782976	7929589	13152895	95	166
NORTH-EASTERN REGION	476603	6891081	38495089	19708982	7367684	19	37
Arunachal Pradesh	10538	209073	1091117	544582	219611	20	40
Assam	378729	5071058	26638407	14074393	5449787	20	39
Manipur	12514	200593	2388634	1222107	213107	9	17
Meghalaya	24305	458779	2306069	1088165	483084	21	44
Mizoram	3441	117885	891058	476205	121326	14	25
Nagaland	13819	195452	1988636	995523	209271	11	21
Tripura	33257	638241	3191168	1784212	671498	21	38
EASTERN REGION	1814219	47876140	227613073	122136133	49690359	22	41
Bihar	464511	13225242	82878796	40934170	13689753	17	33
Jharkhand	166007	5834341	26909428	13737485	6000348	22	44
Orissa	228160	7030004	36706920	21065404	7258164	20	34
Sikkim	4097	125365	540493	288500	129462	24	45
West Bengal	942733	21544753	80221171	45896914	22487486	28	49
Andaman & Nicobar Islands	8711	116435	356265	213660	125146	35	59
CENTRAL REGION	2202217	64254189	255713495	129316677	66456406	26	51
Chhattisgarh	192067	3346898	20795956	11209425	3538965	17	32
Madhya Pradesh	553381	11731918	60385118	31404990	12285299	20	39
Uttar Pradesh	1324509	45804350	166052859	82229748	47128859	28	57
Uttaranchal	132260	3371023	8479562	4472514	3503283	41	78
WESTERN REGION	3178102	49525101	149071747	86182206	52703203	35	61
Goa	81551	1584177	1343998	891411	1665728	124	187
Gujarat	955964	16220262	50596992	28863095	17176226	34	60
Maharashtra	2127240	31568184	96752247	56207604	33695424	35	60
Dadra & Nagar Haveli	6076	69308	220451	122765	75384	34	61
Daman & Diu	7271	83170	158059	97331	90441	57	93
SOUTHERN REGION	4666014	83386898	223445381	135574225	88052912	39	65
Andhra Pradesh	1156405	23974580	7 5727541	44231918	25130985	33	57
Karnataka	1086662	19147819	52733958	30623289	20234481	38	66
Kerala	600065	17669723	31838619	20560323	18269788	57	89
Tamil Nadu	1786514	22052812	62110839	39511038	23839326	38	60
Lakshadweep	491	22997	60595	33686	23488	39	70
Pondicherry	35877	518967	973829	613971	554844	57	90
ALL-INDIA	16552856	304349534	1027015247	541031553	320902390	31	59

RBI 'S POLICY ON FINANCIAL INCLUSION:

RBI has taken initiatives to promote financial inclusion:

i.) As a proactive measure, the RBI in its Annual Policy Statement for the year 2005-06, while recognizing 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 the Mid Term Review of the Policy (2005-06), the RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with nil or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks have been urged to give wide publicity to the facility of such 'no frills' account. A number of banks have since come out with schemes for such 'no frills' account facility.

ii). Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the KYC procedure for opening accounts has been simplified for those persons with balances not exceeding rupees fifty thousand (Rs. 50,000) and credits in the accounts not exceeding rupees one lakh (Rs.1, 00,000) in a year.

iii). RRBs have been specifically advised to allow limited overdraft facilities in 'no frills' accounts without any collateral or linkage to any purpose. The idea is that provision of such overdraft facility provides a ready source of funding to the account holder who is thereby induced to open such accounts. From the bank's point of view, the offering of a 'no frills' account should represent the beginning of a sustainable relationship that will be mutually beneficial. Looking at the numbers involved, there is no doubt that banks should look at technology based solutions and low cost delivery mechanisms that will reduce transaction cost of such services with the volumes required to make such a model sustainable.

iv). For all borrowers where the principal amount is less than Rs 25000, banks have been asked to offer a one time settlement scheme. As there are large number of such very small NPAs with banks, offer of such an OTS is expected to restore borrowing relationship with the formal system and thereby obviate the need to go back to the informal system. Banks, however need to give wide publicity to the scheme at their rural and semi urban branches. In case where the loans are under government sponsored schemes, the State Level Bankers' Committee (SLBC) is expected to evolve a suitable policy.

v). In urban areas, credit cards enable households to manage to get their credit needs met by the banking system, with not only the ability to make purchases on credit but also facility to draw cash against card. In the rural areas, there are no points of sale or outlets where plastic cards can be used. Banks have been recently advised by RBI to provide a General purpose Credit Card (GCC) facility at their rural and semi urban braches. The credit facility extended under the Scheme will be in the nature of revolving credit. The GCC-holder will be entitled to draw cash from the specified branch of bank up to the limit sanctioned. Banks would have flexibility in fixing the limit based on the assessment of income and cash flow of the entire household. However, the total credit facility under GCC for an individual should not exceed Rs.25, 000. Interest rate on the facility may be charged as considered appropriate and reasonable. The borrowers would be eligible for availment of the credit facilities provided under GCC, as per their requirement, without any insistence on security and the purpose or end-use of the credit. Fifty per cent of credit outstanding under GCC up to Rs.25, 000 will be eligible for being treated as indirect agricultural financing coming under the ambit of priority sector lending norms. The eligibility criteria will be subject to review. It is not necessary that GCC should be linked to purchases and GCC may not necessarily be in the form of a card. GCC can be issued in the form of a Pass Book, if the holder of GCC desires to operate cash withdrawals from bank branches. It is expected that banks will come out with their own schemes to popularize this product amongst the rural clientele.

vi). A major recommendation made by the Internal Group set up by RBI on micro finance (Khan Committee), currently under consideration, is to permit banks to use micro finance institutions as business facilitators and correspondents to enable banks to increase their outreach and ensure greater financial inclusion. This recommendation which will lead to provision of micro-finance services at the doorstep of the customer can make substantial change in the availability of comprehensive financial services in rural areas and to the poor and the disadvantaged in both, rural and in urban areas. Banks need to view these recent measures as an opportunity to provide timely and adequate financial services and increase their share in a rapidly growing market. In case of GCC or overdrafts in 'no frills' accounts, the interest rates can be appropriately fixed while building in incentives for prompt payment.

Financial inclusion has several benefits. Establishment of an account relationship can pave the way to the customer availing of a variety of savings products, loan products for consumption livelihood and housing. The account can be used for making small value remittances at low cost and making purchases on credit. The same banking account can also be used by State Governments to provide social security services like health and calamity insurance under various schemes for the disadvantaged. It is often felt that some contribution should be made by the beneficiary so that he has some stake. However, the deterrent is that the cost of collection of the premium that can be more than the premium itself. If however, it is collected through a no frills account, the cost is practically nil. From the bank's point of view, having such social security cover makes the financing of such persons less risky and hence can be covered by the loan component. Reduced risk means more flow of funds at better rates. Furthermore, there is a complete audit trail and transparency. In other words, the single gateway of a banking account can be used for several purposes and represents a win-win situation. The Employment Guarantee Scheme being rolled out in 200 districts in the country which would bring in large number of people through their savings accounts into the banking system is another opportunity to promote financial inclusion in its fullest sense.

USE OF INTERMEDIARIES:

One of the ways in which access to formal banking services has been provided very successfully since the early 90s is through the linkage of Self Help Groups (SHGs) with banks. SHGs usually are groups of women who get together and pool their savings and give loans to members. Usually, there is a NGO that promotes and nurtures these groups. National Bank for Agriculture and Rural Development has played a very significant role in supporting group formation, linking them with banks as also promoting best practices. The SHG is given loan against guarantee of group members. The recovery experience has been very good and there are currently 2.6 million SHGs linked to banks touching nearly 40 million households through its members. Banks provide credit to such groups at reasonable rates of interest. However, the size of loans is quite small and used mostly for consumption smoothening or very small businesses. In some SHGs, credit is provided for agricultural activities and other livelihoods and could be several times the deposits made by the SHG.

The foreign banks and private sector banks have approached the access issue through either setting up relatively lower cost non bank companies for providing small value retail loans or have partnered with micro finance institutions that provide financial services to the relatively higher risk segments of the population. Microfinance has drawn attention to an entire sector of borrowers who had been previously poorly served by the formal financial sector - and MF has demonstrated how to make lending to this sector a viable proposition. However, the rates of interest charged are quite high, typically 24 to 30 per cent, mainly on account of the high transaction cost for the average loan size that can be quite small. Compared to the informal sector, perhaps the rates are lower, but issues are raised whether these rates are affordable - in the sense whether they would leave any surplus in the hands of the borrowers and lead to higher levels of living.

For commercial banks, the lower cost of funding, advantages of size and scale gives scope for cross subsidization and their interest rates are more competitive compared to the MFIs, but they have not been as successful in dealing with the last mile issue. The partnering with SHGs and MFIs with reasonable cost of funding by the banks has been seen as a more optimal approach till now. As indicated earlier, a recent important regulatory measure is the permission given to banks to use post offices, cooperative societies, non-government organizations set up as trusts or societies, as business correspondents (agents) for doing branchless banking after conducting due diligence on such intermediaries. Agency risk is sought to be minimized by using well respected local organizations and use of IT solutions for tracking transactions in the bank accounts. Many banks are exploring the use of this model to increase their outreach and deliver doorstep banking services at lower cost. The viability and scalability of the model would require some flexibility in charging of interest rates or services charges to cover costs.

IT SOLUTIONS FOR FINANCIAL INCLUSION:

The use of IT solutions for providing banking facilities at doorstep holds the potential for scalability of the FI initiatives. Pilot projects have been initiated using smart cards for opening bank accounts with bio metric identification. Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis. Some State Governments are routing social security payments as also payments under the National Rural Employment Guarantee Scheme through such smart cards (see pictures below). The same delivery channel can be used to provide other financial services like low cost remittances and insurance. The use of IT also enables banks to handle the enormous increase in the volume of transactions for millions of households for processing, credit scoring, credit record and follow up.

Initiative of a State Government - pictures of technology at work

Pensioners with Bio-metric cards line-up to receive payments

Biometric validation of Smart Card

Transaction Confirmation Receipt

ROLE OF GOVERNMENT IN PROMOTING FINANCIAL INCLUSION:

State Governments can play a pro -active role in facilitating FI. Issuing official identity documents for opening accounts , creating awareness and involving district and block level functionaries in the entire process, meeting cost of cards and other devices for pilots, undertaking financial literacy drives are some of the ways in which the State and district administration have involved themselves.

India Post is also looking to diversify its activities and leverage on its huge network of post offices, the postman's intimate knowledge of the local population and the enormous trust reposed in him. Banks are entering into agreements with India Post for using post offices as agents for branchless banking.

FINANCIAL EDUCATION:

Financial education can be comprehensively defined as "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being". Financial education thus goes beyond the provision of financial information and advice. The focus of any discussion on financial education is primarily on the individual, who usually has limited resources and skills to appreciate the complexities of financial dealings with financial intermediaries on matters relating to personal finance on a day-to-day basis.

Inspite of the above challenges, it should be possible to arrive at a set of basic themes/issues that could be addressed effectively through a financial education program. As per a study conducted by the under, the project 'Financial Education for the Poor' by Microfinance Opportunities, a microenterprise resource center, a consistent demand was found for the following broad themes of financial education:

Money Management	:	How to proactively manage money
Debt Management	:	How to control debt and avoid over-indebtedness
Managing Savings	:	How to save regularly and in a safe location
Financial Negotiations	:	How to strengthen clients' bargaining
Use of Bank Services	:	How banks work and impose charges
		How clients can maximize bank services, interact with banks, and effectively use ATMs

THE WAY FORWARD

The banks should come out of inhibited feeling that very aggressive competition policy and social inclusion are mutually exclusive. As demonstrated elsewhere, the mass banking with no-frills etc. can become a win-win situation for both. Basically, banking services need to be "marketed" to connect with large population segments and these may be justifiable promotional costs. The opportunities are plenty.

In the context of India becoming one of the largest micro -finance markets in the world especially, in the growth of women's savings and credit groups (SHGs) and the sustaining success of such institutions which has been demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition. The IBA may explore the possibility of a survey about the coverage in respect of financial inclusion keeping in view the geographical spread of the banks and extent of financial services available to the population so as to assess the constraints in extension of financial services to hitherto unbanked sections and for initiating appropriate policy measures. It may be useful for banks to consider franchising with other segments of financial sector such as cooperatives, RRBs etc. so as to extend the scope of financial inclusion with minimal intermediation cost. Since large sections of low income groups transactions are related to deposits and withdrawals, with a view to containing transaction costs, 'simple to use' cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular would greatly facilitate financial inclusion of the semi urban and rural populace. In this regard, it is worthwhile to emulate the example of 'e-Choupal' project brought forth through private sector initiative.

Embarking on Mobile Banking: Mobile banking is the evolutionary step after internet banking. The Indian telecom market is galloping with 162.3 mn mobile users as on March 2006.Given that mobile phones in India have become affordable, wherein a user can now go mobile for as low as Rs 1,500, mobile banking can be a powerful to bank the un-banked. Banks and tele communication companies can collaborate to offer the latest in banking services to rural areas.

CONCLUSION:

To conclude, banks have large number of outlets in the rural area and it may be further increased. With enabling technology support, the delivery channel could be widened with reduced transaction cost. Further, with the introduction of core banking solution, in most of the banks, there is huge surplus of manpower. This surplus manpower needs to be reoriented to take up the challenge of advising the rural masses and bring them into the fold of banking & credit. The banks need to assess their capacities and local knowledge to promote Financial Inclusion. With the collective effort from Banks, regulators, the Government, SHGs & corporate sector, more and more rural poor can be brought within the ambit of financial inclusion. Banks have an important role and stake in inclusive banking, as it would be a necessary intermediate step towards inclusive growth. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas. ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English.

To sum up, banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income groups treating it both- a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as the MFIs and NGOs. It may appear in the first instance that taking banking to the sections constituting "the bottom of the pyramid", may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition. Financial inclusion can emerge as commercial profitable business. Only the banks should be prepared to think outside the box. Financial Inclusion will strengthen financial deepening and provide resources to the banks to expand credit delivery. Thus, financial inclusion will lead to financial development in our country which will help to accelerate economic growth.

The Indian Banking has come of age in the past few years. Overall, it has been a period when banks have thrived. We have seen the growth of some Indian banks to phenomenal levels. But there's still a fair way to go before an Indian bank can truly announce its global arrival. The possibility of opening up of Indian Banking in 2009 should act as a catalyst for action, ushering in a transformational phase of organic and inorganic growth.

The imperatives that are going to be the drivers are undergoing a transformation. Shaping up of a bank, internally with respect to target markets & customers, business models and risk management is going to impact the future tremendously. At external level, consolidation is the word, with changes in landscape due to mergers & acquisitions being undertaken across the industry.

The emerging Indian rural market is playing a big role in charting out a trend for the growth of banks. With the economy surging, the income levels have increased in rural areas. Agricultural income is on the rise. Rural market is not just for micro credit, it also possesses tremendous potential for commercial banking. Till now, rural banking was the forte of public sector banks which was more of an obligation than a well thought out banking initiative for the same. The dynamics of the rural market are changing, and so must the strategy of banks which has to inculcate the spirit of microfinance, credit for small enterprises along with commercial banking.

BIBLIOGRAPHY:

Ananth, Bindu (2005), "Financing Micro Finance: ICICI Bank's Partnership Model", Small Enterprise Development Journal, Vol 16, No. 1.

"ICICI Bank Launches New Initiative in Microfinance", The Hindu Business Line, July 14, 2006.

Government of India : Economic Survey (various years), GOI New delhi.

"ICIICI Bank launches new initiative in micro finance", The Hindu Business Line, July 14, 2006.

Mohan ,R . (2004) : "Financial sector reforms in India: Policies and performance analysis", RBI Bulletin.

www.ifmr.ac.in
www.indiastat.com
www.banknetindia.com
www.idrbt.ac.in
www.rbi.org.in