Inclusive Economic Growth through Financial Inclusion in Selected Rural Areas of District Punjab

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ABSTRACT

Now-a-days ICTs {Information and Communication Technologies} are being used in many fields specially in banking to improve the efficiency, reliability and ease of operation. They are widely used in the form of mobiles ATMs, biometric smart cards, mobile banking and so on. Branchless banking in the form of Business Correspondents and Business Facilitators is one of the major initiatives of RBI in this direction through which they are able to reach the unbanked population.

The paper includes the understanding of the Business Correspondent model and its working i.e. the enrollment process and the transactions through biometric smart cards. The survey was also conducted among rural people to know the penetration of banking in the interior areas of district Amritsar. Paper also focuses on the problems of the BCs and the rural people and includes the suggestions on the basis of research conducted.

Microfinance and Information and Communication Technology (ICT), in their own right, can be argued to have a lasting impact on the social and economic order. However, to have an even more profound impact, these different approaches to orchestrating change- social and economic- will have to integrate and collaborate, in a way that ensures actualizing of a more holistic development framework that beat leverages the respective strengths of both microfinance and ICT.

Keywords: Microfinance, RBI, Banking, Economic Development

Introduction

Broadly, financial exclusion is construed as the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion in response to discouraging experiences or perceptions of individuals/entities. Definitions of financial exclusion in the literature vary depending on the dimensions such as 'breadth', 'focus' and 'degree' of exclusion. The 'breadth' dimension is the broadest of all definitions linking financial exclusion to social exclusion which defines financial exclusion as the processes that prevent poor and disadvantaged social groups from gaining access to the financial system (Layton and Thrift, 1995). The 'focus' dimension is in the middle of the spectrum that links financial exclusion to other dimensions of exclusion. It defines financial exclusion as the potential difficulties faced by some segments of population in accessing mainstream financial services such as bank accounts/home insurance (Meadows *et al.*, 2004). The definitions laying emphasis on the 'focus' also vary significantly to include various segments of population such as individuals, households, communities, and businesses. The 'degree' dimension, which is the narrowest of all definitions of financial exclusion, defines financial exclusion as exclusion from particular sources of credit and other financial services including insurance, bill-payment services and accessible and appropriate deposit accounts (Rogaly, 1999). Finally, definitions of financial exclusion vary considerably according to the dimensions such as the concept of relativity, *i.e.*, financial exclusion defined relative to some standard (*i.e.*, inclusion). This line of thinking defines the problem of financial exclusion as that emanating from increased inclusion, leaving a minority of individuals and households behind (Kempton *et al.*, 2000).

Both the Government and the Reserve Bank have been pursuing the goal of financial inclusion over the last several decades through building the rural cooperative structure in the 1950s, the social contract with banks in the 1960s and the expansion of bank branch networks in the 1970s and 1980s. These initiatives have paid off in terms of a network of branches across the country. Yet the extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 30,000 have a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts, and this ratio is much lower in the north-east of the country. The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is an abysmally low 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent.

The National Sample Survey data reveals that, in 2013, out of the 89.3 million farmer households in the country, 51 percent did not seek credit from either institutional or non-institutional sources of any kind. These statistics, staggering as they are, do not convey the true extent of financial exclusion. Even where bank accounts are claimed to have been opened, verification has shown that these account are dormant. Few conduct any banking transactions and even fewer receive any credit. Millions of people across the country are thereby denied the opportunity to harness their earning capacity and entrepreneurial talent, and are condemned to marginalization and poverty.

Causes of financial exclusion:

The exclusion of large numbers of the rural population from the formal banking sector may be for several reasons from the supply side, such as:

- Persons are unbankable in the evaluation/perception of bankers,
- The loan amount is too small to invite attention of the bankers,
- The person is bankable on a credit appraisal approach but distances are too long for servicing and supporting the accounts and expanding branch network is not feasible and viable,
- High transaction costs particularly in dealing with a large number of small accounts,
- Lack of collateral security,
- Inability to evaluate and monitor cash flow cycles and repayment capacities due to information asymmetry, lack of data base and absence of credit history of people with small means,

From the demand side, there are several reasons for the rural poor remaining excluded from the formal banking sector, such as:

- High transaction costs at the client level due to expenses such as travel costs, wage losses, incidental expenses,
- Documentation,
- Lack of awareness,
- Lack of social capital,
- no availability of ideal products,
- Very small volumes / size of transactions which are not encouraged by formal banking institutions,
- Hassles related to documentation and procedures in the formal system,

Consequences of financial exclusion:

Financial exclusion is not evenly distributed throughout society; it is concentrated among the most disadvantaged groups and communities and, as a result, contributes to a much wider problem of social exclusion. Broadly, the issue of cost of financial exclusion may be conceived from two angles, which are intertwined.

- First, the exclusion may have cost for individuals/entities in terms of loss of opportunities to grow in the absence of access to finance or credit.
- It exposes the individual to the inherent risk in holding and storing money – operating solely on a cash basis increases vulnerability to loss or theft.
- Individuals/families could get trapped into a cycle of poverty and exclusion and turn to high cost credit from moneylenders, resulting in greater financial strain and unmanageable debt.
- Second, from the societal or the national perspective, exclusion may lead to aggregate loss of output or welfare and the country may not realize its growth potential.
- Financial exclusion is not evenly distributed throughout society; it is concentrated among the most disadvantaged groups and communities and, as a result, contributes to a much wider problem of social exclusion.

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. However there are certain under-banked states such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Jhaarkhand, 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.

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 there-after), the ratio of deposit accounts (data available as of March 31, 2004) to the adult population was only 59%. Within the country there is wide variation in the across states. For instance, the ratio for the states of Kerala is as high as 89% while Bihar is marked by a low 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.

Initiatives of the Reserve Bank of India

Reserve Bank of India in its annual policy statement of April 2005 recognized the problem of financial exclusion and has, since then initiated several policies aiming at promoting financial inclusion. Some of the major initiatives aimed at promotion of financial inclusion include:

1) No Frills Accounts
2) Easier Credit facility
3) KYC regulations for small value clients and transactions
4) Unique Identification Authority of India (UIDAI)
5) 100% Financial Inclusion Drive
6) Use of ICT Solutions for Enhancing Outreach of Banks
7) Financial Literacy and Credit Counseling
8) Electronic Benefit Transfer (EBT) by banks
9) Mandated priority sector lending
10) Linking branch licensing approvals to penetration in under-banked areas

It Enabled Financial Inclusion through branchless banking

In January 2006, the Reserve Bank of India issued a new set of guidelines allowing banks to employ two categories of intermediaries- Business Correspondents (BCs) and Business facilitators (BFs) - to expand their outreach. BCs are permitted to carry out transactions on behalf of the bank as agents. The BFs can refer clients, pursue the clients' proposal and facilitate the bank to carry out its transactions, but do not transact on behalf of the bank. These intermediaries can be NGOs, SHGs, MFIs, community based organizations, IT enabled rural outlets of corporate entities, post offices, insurance agents, well functioning panchayats, Village knowledge centers, agri clinics/agri business centers, krishi vigyan kendras and other

Civil Society Organizations that provides financial and banking services through the use of business facilitator and correspondent models. Services provided by these intermediaries are:

- Collection and preliminary processing of loan applications including verification of primary information/ data.
- Identification of borrowers and fitment of activities
- Creating awareness about savings and other products and e3ducation and advice on managing money and debt counseling
- Processing and submission of applications to banks
- Promotion and nurturing Self help groups/Joint Liability Groups
- Post-sanction monitoring
- Monitoring and handholding of Self help groups/Joint Liability Groups/ credit groups and others
- Follow-up for recover

It's a big challenge to provide banking facilities closer to the customer, especially in remote and unbanked areas, while keeping transaction costs low. And for the purpose, IT enabled services are introduced and pilot projects are initiated utilizing smart cards/mobile technology to increase their outreach. Accordingly banks are urged to scale up IT initiatives for financial inclusion speedily while ensuring that solutions are highly secure, amenable to audit, and follow widely-accepted open standards to ensure eventual inter-operability among the different systems.

Microfinance has proven to be a key economic development approach intended to benefit low-income population. In recent years, this sector has also caught the attention of commercially oriented businesses- given the significant market opportunity at the base of the pyramid, which help in the betterment of our citizens. Microfinance and Information and Communication Technology (ICT), in their own right, can be argued to have a lasting impact on the social and economic order. However, to have an even more profound impact, these different approaches to orchestrating change- social and economic- will have to integrate and collaborate, in a way that ensures actualizing of a more holistic development framework that beat leverages the respective strengths of both microfinance and ICT.

Challenges in the Smart Card Based Solution for Financial Inclusion

- Smart card solution for Financial Institutions is limited in reliability because:
- There is lack of standardization of the solution across the industry
- A central agency that ensures that standards are complied with.
    - Test and certify the smart cards and bank
    - Assure data security of cards and terminals, during manufacture, while in store and in transit.
- Create a test environment and R & D labs for smart cards
- Aggregate banking industry demand for all technology components of the financial inclusion solution such as bank cards, bank terminals and the intermediate or backend servers.
- Develop an industry wide security management framework (the key management system) and maintain the necessary infrastructure for its operation. Training and hand holding the banks in financial inclusion implementation.

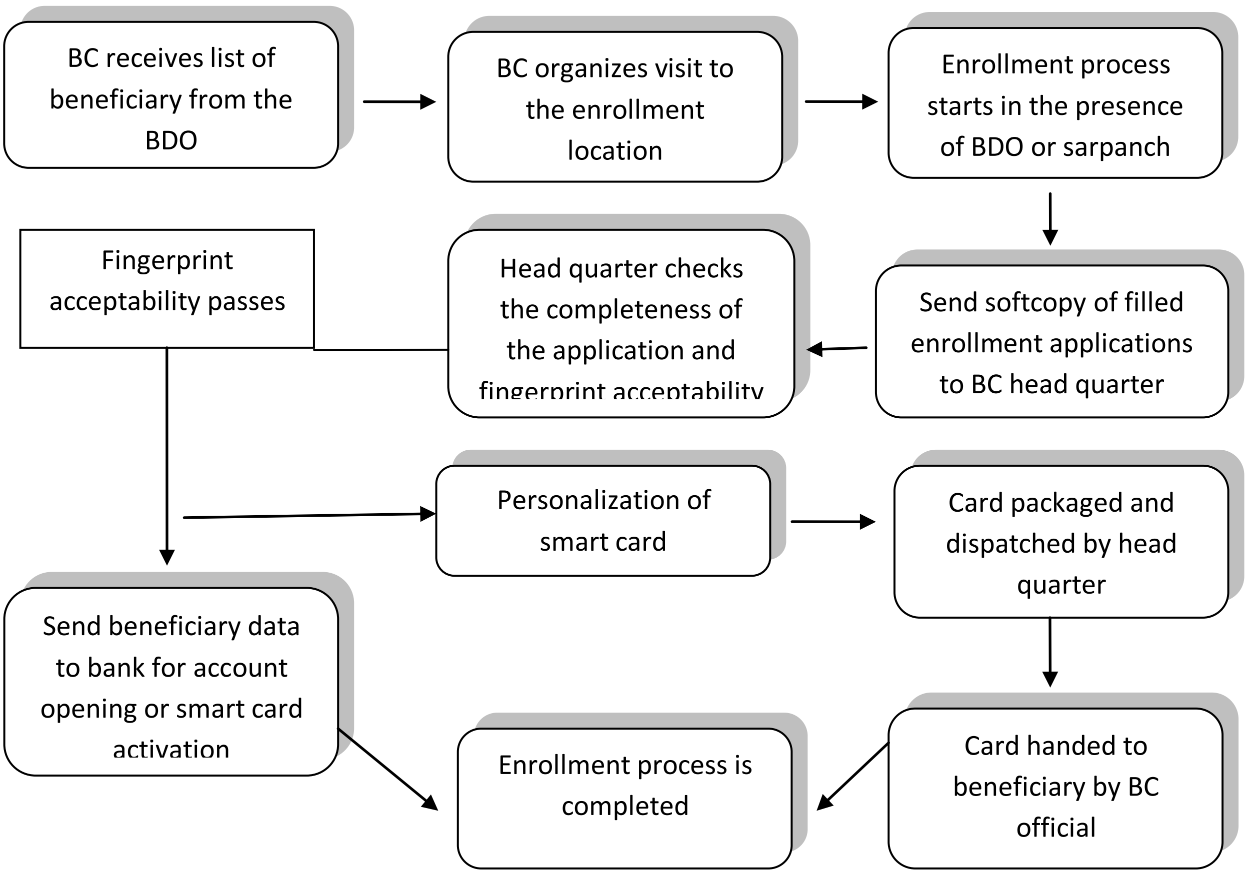
Survey to analyze the progress in FI through Business Correspondent Model in Punjab

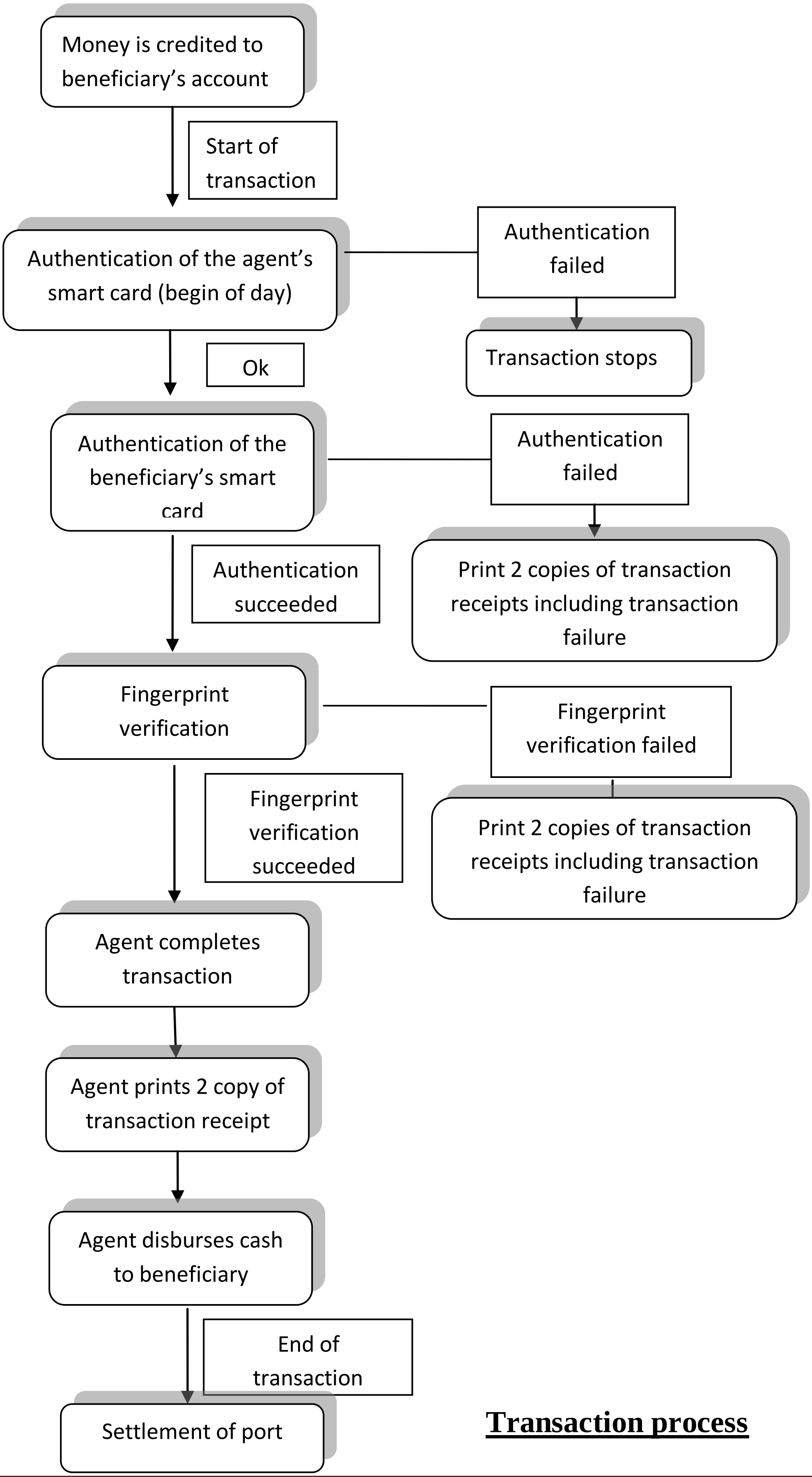
After the completion of first phase of 100% financial inclusion by providing basic banking services to all rural households in the state of Punjab by either opening of deposit accounts including under general credit card scheme, banks have started rolling out their ICT driven Business Correspondent Model in the State. It has not attained this scale, only plots have been rolled out. Some of the banks like PNB, OBC and SBI have initiated the process of providing Bio Metric cards in identified villages.

The main purpose of the survey was to get information about the business correspondent model, it's working and how the inclusive process is carried out and what makes it a favourite choice to reach out to the unbanked villages without going for brick and mortar structures. The special focus of the study was on the field work of business correspondent i.e how the various transactions are being done to provide door to door banking facility through biometric smart cards. Another objective of the study was to conduct a survey among the people of rural area availing these services and their opinion regarding banking facilities provided to them. FINO (Financial Inclusion and Networking Operations) is the technology partner for OBC in district Amritsar. FINO provides end-to-end core banking technology solutions including smart cards to microfinance partners, banks and Non-Governmental Organisations (NGO) involved in serving low-income households in the urban and rural regions in India as business correspondents of large institutions. It serves the unbanked sector and also services the technology requirements of entities engaged in servicing the bottom of pyramid customers. One of the biggest challenges in the micro banking industry is the huge amount of paperwork and human effort traditionally involved in supporting micro-transactions and credit scoring potential customers.

The study was conducted in Chogawan block of district Amritsar. The branch of Oriental Bank of Commerce in association with FINO in block Chogawan covers around 113 gram panchayat i.e 108 villages. They have enrolled around 8500 NREGA beneficiaries by issuing biometric smart cards for the payment of wages. After enrollment of the beneficiaries, the main purpose of the BC is the disbursement of the funds to the beneficiaries at door step whenever required by them.

Enrollment process





Transaction process

Achievement so far

- OBC have covered 768 villages in district Amritsar to cover NREGA beneficiaries. The number of accounts opened of the beneficiaries is 75,425 and the cards issued till now are 56,472.
- Maximum attendance for enrolment is ensured by making announcements in Gurudwaras and Panchayat meetings. Village Sarpanch also helps in ensuring full attendance by sending his staff / field functionaries / office bearers to beneficiary's houses.
- BC observed that creating biometric database, taking photographs, and then keying in of the beneficiary details resulted in slow enrollment process. So, in consultation with OBC they have devised new simplified application form.
- The BC has put in place fine backup policy. The machines are replaced within 2 hours of reported breakdown/ malfunctioning. Also the sub agent carries enough of backup battery power for enrollment so that process is not halted due to erratic power supply.

Field issues

- In rural areas the density of population is low. The retail agent (sub-agent) has to cover vast areas and the transport cost is prohibitive.
- Electricity is a big issue. So their field staff has to move with generator kits / batteries in a few places.
- Punjab govt gives details of beneficiaries in handwritten hard copy. So the backend operations are more.
- Bank manager accompanies them only on some occasions. Definitely it makes a big positive difference when he comes.
- Finding sub-agent for BC is very difficult. They have special staff that is exclusively on the job of finding sub-agents.
- The BCs are required to surrender the cash after 24 hours in the branch and for this they need to travel long distances thus increasing the cost of operations.

Findings from the survey:

- Out of surveyed population, 50% of the population is earning less than 2000 per month, 32% is earning in between 2000-4000 and only 23% is earning more than 4000.
- Saving habits among population with earning more than 4000 per month is found to be more i.e. above Rs 500 per month. However population with earning in between 2000-4000 per month, they save less than 500 a month.
- From the survey conducted, it was found that 27% of the population is not having bank account, 56% is having at least 1 bank account and 17% of population is having 2 and more than 2 bank accounts.
- The population without bank accounts is 16 i.e. 27% and out of these, 2 have availed loans from local moneylenders.
- Out of 60 households, 44 are having bank accounts and out of these only 6 i.e. 14% household has availed loan facilities from the banks. However 10 i.e. 22.73% of households availed loans from the local moneylenders.
- The total number of population having biometric smart cards is 43% and rest of them i.e. 57% is not having smart cards.
- Out of surveyed population, only 20% is having KCC/GCC/SCC and rest of them i.e.80% is without these credit cards.
- It is also seen that the population with saving habits, only visit the branch ones in a month. Others with bank accounts but with no savings rarely visit the branch.

Some suggestions

- First of all it is very important to conduct awareness camps in the interior areas of the rural population so that they are well informed about the various banking services and policies made for them by the government.
- BC can be scaled up as financial literacy delivery route also as they have one to one interaction with the rural poor. Some structured training modules focusing on financial literacy aspects can be arranged for BCs for onward dissemination.
- In case of savings accounts, the account balance can be stored on the card itself thus facilitating the BC to conduct transactions on the savings accounts even if the smart card reader is not connected to the back end server.

- Commissions for BCs need to be high for the initial stages. In order to achieve the scale govt. beneficiary payments like old age pensions need to be mandatorily routed through these BCs.
- The receipts printed by BC at Point of transaction should be in the regional language so that it is easily understood by the smart card holders.
- The beneficiaries are illiterate people and they can be exploited by the agents. We can test with speaking POS machines that speak in local language when the transactions are held.
- There must be some grievance handling system by the branch. There should be visits of the bank officer to the areas where transaction and enrollment process is done so that he can look into the problems faced by the customer.
- Support of the state govt / district administration is the key to success of the BC setup. Gram Panchayats should not be allowed to disburse the physical cash to beneficiaries because of the skimming / leakage history.
- The details of wage employment/social security benefit payments should be handed over to BC in the soft copy. This will facilitate in speedy disposal of the job.
- More concern should be given to the population with bank accounts but not availing services out of it by providing them financial assistance on timely basis.
- Elder people are more reluctant in accepting changes as compare to younger ones. It is very important to provide knowledge to the rural people when they are at young age about the banking system and what best they can get by availing banking services.

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