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REARRANGEMENT OF PRESENT FINANCIAL SYSTEM FOR THE PROGRESSIVE GROWTH OF RURAL INDIA

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INTRODUCTION

Indian economy and banking services have made rapid strides in the recent past. However, a sizeable section of the population, particularly the vulnerable groups, such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector. Approximately at least 40% of Indians do not have access to bank and banking services. The excluded members are predominantly the rural poor, urban poor, and rural middle class. Recently there has been a lot of thrust from RBI and the government for financial inclusion. It is clear that availability of reliable and affordable banking services to the poor people will positively impact their income generation and retention ability. Financial inclusion is the delivery of banking services at affordable costs to vast sections of disadvantaged and low income groups. It is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. The term "financial inclusion" has gained importance since the early 2000s and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations. Indian banking system, which is amongst the largest banking networks in the world, does not reach most of the rural poor in India. About 70% of the Indian population from rural areas accounted for only 30% of bank deposits. To cater to the needs of the rural poor, regional rural banks and cooperative banks were established but that initiative did not meet with success. Over the last decade, efforts have been made by government, financial institutions, and NGOs, often in partnership, to develop new financial delivery approaches.

Main goals of Inclusive Finance are as follows:

- Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.
- Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required.
- Financial and institutional sustainability as a means of providing access to financial services over time.
- Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers.

"Major Three Aspects of Financial Inclusion" Make people to:

- Access financial markets
- Access credit markets
- Learn financial matters (financial education).

Expectations of poor people from financial system include:

- Seasonal Inflow of Income from agricultural operations,
- Migration from one place to another,
- Seasonal and regular work availability and income needs to be designed to suit their requirements,
- Security and safety of deposits,
- Low transaction cost,
- Convenient operating time,
- Minimum paper work,
- Frequent deposits,
- Quick and easy access,
- Product suitable to income and consumption.

- Financial inclusion includes accessing of financial products and services like:
- Savings facility
- Micro credit during emergency
- Entrepreneurial credit and debit cards access
- Electronic fund transfer
- All kinds of commercial loans
- Overdraft facility
- Cheque facility
- Payment and remittance services
- Low cost financial services Insurance (Medical insurance)
- Pension for old age and investment schemes
- Access to financial markets
- Financial advice.

The financially excluded sections largely comprise

- Marginal farmers
- Landless laborers
- Oral lessees
- Self employed and unorganized sector enterprises
- Urban slum dwellers
- Migrants
- Ethnic minorities and socially excluded groups
- Senior citizens
- Women

INNOVATIVE WAYS FOR FINANCIAL INCLUSION

Technology

The banks have a responsibility to include everybody in the banking process. Technology is no longer a choice, it is a compulsion. The banks should make use of technology in a large way and scale up the branch network. If the banks cannot scale up using technology, then the idea of financial inclusion and inclusive growth will fail. Reserve Bank of India (RBI) asked banking sector to extensively use the technology and Business Correspondents to reach out to the masses. The help of Business Correspondents (BCs) has eased the burden of banks to expand. It may be inappropriate to offer a single solution for the entire financial inclusion problem.

Depending on the key problem being solved, a mix of the above solutions as well as newer innovations will be required.

CNBC AWAAZ, India's No.1 Business Channel, presented 'India Financial Inclusion Summit 2010' — a unique initiative that took a stock of the nation's inclusion endeavor and charted the road towards India's equitable development. As every segment of the financial sector is increasingly realizing the importance of inclusion, the summit helped draft a blueprint required to make it a reality. It focused on financial literacy as a pre-requisite to financial inclusion while highlighting the responsibility that every stakeholder has towards educating investors about the risks related with the capital markets and the products linked to it.

Branchless banking is a technology enabled, low-cost, alternate delivery channel that facilitates basic banking services to the rural communities at their doorstep through Business Correspondents at an affordable cost in a secure manner. It facilitates customers to transact from their villages and at their convenience and save or withdraw small amounts depending upon their need, without the hassles of filling up A challan for depositing cash or withdrawing money. Corporation Bank, one of the early movers in implementing branchless banking model, started this project in 2006 and is presently operational in more than 560 villages. By end of the current fiscal, the number will be increased to 2,000 villages. The bank also plans to roll out micro insurance and facilitate transactions using the mobile phones through the Business Correspondents. The Corporation Bank has provided customers with a Smart Card, which acts as an e-purse and e-passbook and holds multiple accounts of the customer. Today, the bank has opened branchless banking units in Karnataka, Andhra Pradesh, Kerala, Gujarat, Haryana and Tamil Nadu. Amid rapid change and tough competition, most microfinance institutions (MFIs) are taking a close look at the potential benefits of Information and Communications Technologies (ICT).

This focus has sharpened as institutions struggle with the issue of sustainable rural finance and the challenges of outreach and scale. While much has been written about the use of personal digital assistants, point of sale/smart cards, automated teller machines, and mobile phones to date, the results of technology investments in the microfinance industry have been mixed. The success of mobile payment and mobile banking systems, such as M-PESA in Kenya, has exceeded expectations. With the exponential growth of mobile phone subscriptions in developing countries, and the increasing popularity of m-banking and m-payment providers, there is also an expanding volume of data accumulating in the databases of Mobile Network

Operators (MNOs). Captured in their databases are payment and transaction histories about users; who many believe represents the unbanked population.

"Business Correspondent" Model — commonly called the BC Model

The BC model is one good example of how an innovative model emerges based on market needs to serve the bottom of the pyramid. Bottom of the Pyramid refers to this model and its implementation. Many companies are today offering solutions and services based on this model. The BC model is well suited to serve the dispersed rural population, it is finally dependant on an individual (BC agent) to provide the services reliably and effectively. Technologies, like POS device & finger print authentication, are available to make the BC agent services transparent but the illiteracy and naivete of the end users coupled with the manual activity in the services involving the BC agent may make it difficult to create a reliable and scalable process for the above services. In addition, theft or loss of money carried by the BC agent is another risk.

Rural ATMs with biometric authentication can now be viably deployed even where the number of users is less and where power supply is erratic. Since the ATM network and its functioning are well proven and integrated reliably to the banking system, it offers seamless and reliable service with regards to cash disbursement. Since it is a self service terminal, it avoids the presence of the middle man. The rural population may initially need some help to use the ATM and it can be made available from the caretaker or security guard manning the ATM.

Self-help Groups

The SHGs focused on the poor, a large number of the SHG members are from the landless/ near landless. They cannot survive on agriculture alone and depend on the SHGs to provide them with credit for non-farm income generating activities, skills training and consumption. In some parts of the country, some of the marginal/small farmers are increasingly diversifying their livelihood options both in the on-farm sector where the trend is towards a more integrated and organic strategy and cash crops, as well as towards livelihood options in the off farm sector both in the vicinity as well as in other parts of the country that the youth are increasingly opting for. These families require several tranches of credit (not just one or two) to enable them to use the livelihood options available in order to rise above the poverty line and stay there. The SHGs have provided this credit in areas where they are functioning effectively.

Agency	Cumulative Sanction up to 31.03.2013		Cumulative Achievement (31.3.2013)	
	Amount	SHG Nos.	Amount	SHG Nos.
NGOs	19932.18	526699	6647.68	362803
RRBs	744.99	49250	185.43	45852
Coop. Banks	1046.23	73634	353.50	51266
IRVs	460.12	26883	77.04	11228
Farmers Clubs	40.63	2544	20.40	9832
SHG Federation	28.61	250	1.85	46
PACS	397.45	8533	4.28	85
Total	**22650.21**	**687793**	**7290.18**	**481112**

Source: Report of SHG-Bank Linkage Programme – NABARD

One of the major concerns was the slow progress of the SHG Bank Linkage movement in the North-east and Central parts of the country. It was even claimed in some quarters that the SHG strategy was not suitable to the social configurations that prevailed in the North East.

Postal Banks

Out of 1.5 billion users of postal financial services in the world, only 400 millions are holders of a postal (bank) account, 300 millions of which located in developing or emerging countries. As of today, more than 2 billion adults remain un-banked, mostly in developing and emerging countries, although under-banked citizens are also a concern in more advanced economies. Have Posts started to bridge this financial access divide that often exists between better and less well-off populations?

- There are 1.5 billion users of some kind of postal financial service in the world.
- There are 500,000 post offices in the developing world with an average of 5,000 micro-customers.
- There are 350,000 rural post offices in developing countries.

Covering the last mile is a major challenge of governmental engagement in poverty alleviation. The good news is that Posts can offer an effective solution to the unbanked population. In India, postal financial services go hand in hand with government measures to promote financial inclusion. This collaboration is helping to ensure that poor people are not excluded from basic products, such as savings accounts.

Agent Banking

Also known as correspondent banking, this is a model for delivering financial services whereby a bank partners with a retail agent in order to extend financial services in locations for which bank branches would be uneconomical. Agent banking is a delivery channel that holds high potential for closing the location gap. Brazil has the largest agent network in the world with more than 113,000 agents, close to 40,000 of which offer a broad range of banking services including cash-in, cash-out, bill payments, and account opening and loan applications. Agents in Brazil conducted 2.4 billion transactions in 2009.

ROLE OF NABARD IN FINANCIAL INCLUSION

A sizeable section of the population, particularly the vulnerable groups, such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector. Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) — the two funds have been established with NABARD, which is the coordinating agency of Financial Inclusion initiatives with Financial Inclusion Department (FID) as the nodal department of NABARD.

BENEFITS OF INCLUSIVE FINANCIAL GROWTH

Inclusive financial growth provides the following benefits:

- Growth with equity
- Get rid of poverty
- Financial Transactions Made Easy
- Safe savings along with financial services
- Inflating National Income
- Becoming Global Player

FACTORS AFFECTING ACCESS TO FINANCIAL SERVICES

Access to Financial Services is affected by factors such as:

- Legal identity
- Limited literacy
- Level of income
- Terms and conditions
- Complicated procedures
- Psychological and cultural barriers
- Place of living

- Lack of awareness.

FINANCIAL EXCLUSION THREATS

The following threats are posed by financial exclusion:

- ***Losing Opportunities to Grow***: In the absence of finance, people who are not connected with formal financial system lack opportunities to grow.
- ***Country's Growth will Retard***: Due to vast unutilized resources that is in the form of money in the hands of people who lack financial inclusive services.
- ***Business Loss to Banks***: Banks will loss business if this condition persists for ever due to lack of opening of bank accounts.
- ***Exclusion from Mainstream Society***: The people who lack financial services, presume that they are excluded from mainstream society.
- ***All Transactions Cannot Be Made in Cash***: Some transactions cannot be made in cash. In this technological world, everybody wants to have electronic cash system like debit and credit cards.
- ***Loss of Opportunities to Save and Thrift to Borrow***: Financially excluded people, may lose chances to save their some part of livelihood earnings and also to borrow loans
- ***Employment Barriers***: Nowadays all salary and other financial benefits from various sources like Governments scholarships, any compensation, grants, reliefs, etc., are paid through bank accounts.
- ***Loss Due To Theft***: Banks provide various schemes of safety — locker facility. It mitigates the risk due to thefts.

CONCLUSION AND RECOMMENDATION

Technology-driven models should be made use of to ensure financial inclusion in the country and reach banking and social services to all sections of the society, even in remote villages. Effort must be made to ensure that the schemes under the national rural jobs programme, pension and other social security measures reach even those in remote villages faster, more efficiently and with lesser intermediation cost. "Only then will the rural hinterland become fully connected with the financial sector in India". India presently has some 32,000 rural bank branches. In the federal budget tabled in February, the government had committed to reach financial services to all villages that have a population of more than 2,000 people. Growth cannot be achieved by transferring a lump sum of money into this account as proof of one loan given, closing both the account after the loan is drawn as well as the file itself after the loan is repaid and the subsidy adjusted. Financial inclusion is not a one-off event. It has to move from "opening an account" in the Bank, to regular savings and finally to a relationship which enables the borrower to access loans on a regular basis. Financial inclusion cannot be achieved unless financial literacy is imbibed into the system.

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