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Indian Bank's Performance in the framework of Policies & Principles of Financial Inclusion

Pankaj Kumar Baag [1]

[1] Assistant Professor, Finance, Accounting and Control Area, Indian Institute of Management Kozhikode, IIMK Campus P.O, Kerala 673570, India, Email: baagpankaj@iimk.ac.in, Phone Number: 8943716269

IIMK WORKING PAPER

A Perspective on Indian Bank's Performance in the Framework of Policies & Principles of Financial Inclusion

Dr. Pankaj Baag
Assistant Professor of Finance, Accounting and Control, IIM Kozhikode

Abstract

We tie the performance of Indian banks in a broad framework around the policies and principles of financial inclusion. We find that the business aspect of financial inclusion is the biggest psychological barrier in India, though Banks have only recently acknowledged that the poor are indeed bankable, and are working towards creating strong business models that will create sustained financial inclusion as well as make a strong business sense to the bank themselves. This is possible only when financial inclusion is treated as an essential part of strategic financial sector growth and development by the government and the regulators.

Key Words: Financial Inclusion, Policies and principles, Banks, Regulators, Government

Introduction

1.1 Surging importance of Financial Inclusion

Financial inclusion typically is the proportion of individuals, households, and firms that use financial services. It broadly refers to universal access to a wide range of financial services at a reasonable cost which include banking products as well as insurance and equity products. Financial inclusion has now become a subject of significant interest among policy makers, academicians, and other stakeholders.

In international settings, G-20 nations have moved up financial inclusion in its reform agenda along with suggestions for innovative financial inclusion (G20 FIEG, 2010). In individual country settings, two-thirds of regulatory and supervisory bodies are now saddled with the responsibility of enhancing financial inclusion. Such is the charged up atmosphere that in the last few years, some 50 countries have set targets and goals for financial inclusion. The increased interest reflects acceptance of the significance of financial inclusion for social and economic development, and indicates its important critical role in reducing poverty, increasing shared prosperity, and supporting inclusive sustainable development. The role of the banks with respect to banking products plays an important part in financial inclusion. This paper ties the activities of Indian banks and its regulator's for financial inclusion in a broad framework around the policies and principles of financial inclusion.

The surge in the interest on financial inclusion derives from a growing recognition of the large gaps in financial inclusion. Currently, more than 2.5 billion people which is about half of the world's population, do not have access or do not have an account in a formal financial intermediary. Some of this non-use of access to financial services may show lack of demand but barriers like paperwork, travel distance and cost play a key part in this financial exclusion. No doubt, better policies can definitely reduce most of these barriers. In fact, the Committee on Financial Inclusion, Reserve Bank of India (RBI) (2008) has defined financial Inclusion as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players.

Globally, nations have made progress in this aspect. South Africa successfully opened over 6 million basic bank accounts in a period of four years till 2010 with respect to its Mzansi bank account and thus, significantly increasing the share of adults with a bank account. India, till Nov., 2016, opened over 500 million Basic Savings Bank Deposit Accounts (BSBDAs), and the process started with no-frill accounts in 2005, and a resurgent Jan Dhan Yojana in Aug. 2014 which in itself has contributed over 250 million accounts till date. Worldwide, a few hundred millions have now access to e-payments through services using mobile platforms. Per World Bank's Global Financial Barometer report (Cihak, 2012), 78 percent of the people surveyed indicated that financial inclusion had improved substantially in their countries in the last six years.

1.2 The early initiatives

Financial inclusion term was first coined in 1993 by certain geographers in UK who were troubled with rapid bank branch closures that were resulting in limited physical access to banking services. This idea started growing and by 1998, the term was being used in a broader sense to describe people who have limited access to mainstream financial services. In this regard, some of the global early initiatives taken were in this last decade of the earlier century. These were with respect to legislative measures being initiated in some countries. In 1998, Credit Union Taskforce was created in UK and one of the tasks was developing a strategy to increase access to financial services for people living in deprived neighborhoods. The United States initiated the Community Reinvestment Act (1997) that required banks to offer credit throughout their entire area of operation and prohibited them from targeting only the rich neighborhood. Even before that in 1994, the State Bank of New York armed with the sanction of Banking Law made mandatory that each banking institution shall offer basic banking accounts. In France, the law on exclusion (1998) emphasized an individual's right to have a bank account. The German Bankers' Association introduced a voluntary code in 1996 providing for an "everyman" current banking account that facilitates basic banking transactions.

In India, our initiatives actually goes back to some actions in the early 1960s and 70s with the first major effort towards financial inclusion dated way back to 1969; when the GOI nationalized 16 banks, with a view to provide access to banking services to its vast rural populace. Some of our other early initiatives were the Lead Bank Scheme (LBS) in 1969 for the rural; the Co-operative Bank movement after the Banking Laws (Co-Operative Societies) Act, 1965; the setting up of Regional Rural Banks with the RRB act, 1976; the self-help group (SHG)-bank linkage programme (SBLP) in 1992 by National Bank for Agricultural and Rural Development (NABARD); Swarnajayanti Gram Swarozgar Yojana (SGSY) in 1999 through banks by formation of Self Help Groups. Other approaches like micro finance institutions (MFIs) also emerged subsequently in the country. These were all geared towards enlisting the participation of excluded sections of the populations into the formal rung of financial services.

In short, bank nationalization in India marked a paradigm shift in the focus of banking from class banking to mass banking. The development until 1990s was characterized by a hugely expanded bank branch, cooperative bank network, and new organizational forms like RRBs. It had a greater focus on credit rather than other financial services like savings and insurance, by lending targets directed at a range of 'priority sectors' such as agriculture, weaker sections of the population with interest rate ceilings. In the process, NABARD was established in 1982 with a focus to uplift rural India by increasing the credit flow for elevation of agriculture and rural non-farm sector. Similarly, Small Industries Development Bank of India (SIDBI) was established in 1990 with an aim to aid the growth and development of micro, small and medium-scale enterprises (MSME). Recently, it has started opening Micro Finance branches.

Policies and Principles

2.1 Sustainability – issues and lesson learnt

But boosting a sustainable financial inclusion is not easy; it has its own problems. In the above mentioned countries – South Africa and India, over half the basic accounts opened have since become dormant or inactive; it simply means not all accounts got translated into regular use. Moreover, with credits, situations can turn bad when credit start growing rapidly without any concern for stability resulting in a crisis. The best examples are the India's microfinance crisis in 2010, the US mortgage crisis around 2007, and the Bosnia and Herzegovina microfinance industry crisis in 2008. The broader issue, these three examples point to, is that resolving deep social issues need more attention than credit infusion. Lesson learnt is that financial inclusion needs proper implementation in terms of policies and principles or it can lead to negative effects including defaults.

It has to be understood that financial inclusion is not finance for all at all costs. Efforts to subsidize the services to individuals and firms who have no material demand or business need can be counterproductive leading to over indebtedness and financial instability. This was one of the causes of the India's Andhra Pradesh MF crisis in 2010. There were rapid rise of loans disbursed by specialized MFIs in a severe competitive environment beginning the late 1990s (Mader, 2013) supported by the state as a driving force in the background. This led to multiple borrowing and excessive indebtedness among low-income clients. This unseen and unexpected problem could have been avoided, if there was a well-developed and appropriate institutional infrastructure with respect to establishment of reliable credit reporting systems for MFI borrowers. And, in the absence of a strong personal bankruptcy law, these problems were further aggravated which could otherwise have been allowed for orderly discharge of excessive debts. Of course this spectacular insufficiently regulated growth of Indian MFIs did have some relatively limited positive impacts (Banerjee et al., 2013) but that is beyond the purview of this paper. No doubt, we learnt a lesson from this crisis, and subsequently, the Micro Financial Sector Development and Regulation Bill, 2011, were enacted and micro-lenders were brought under the ambit of the central bank.

2.2 Focus of the policies and the principles

Still in majority of the cases around the world, the use of financial services is constrained by regulatory impediments, and malfunctioning markets that ultimately prevent people from accessing beneficial financial services. Therefore, the regulators should first focus on the policies on removing the cause of market failures that increase the cost of such services or the cause that make these services unavailable due to regulatory barriers, legal hurdles, or an assortment of market and cultural phenomena.

In dealing with these failures, regulators and the government can create associated legal and regulatory framework that will deal with protecting creditor rights, regulating business conduct, and overseeing recourse mechanisms to protect consumers; supporting the information environment by setting standards for disclosure and transparency and promoting credit information by sharing systems and collateral registries; and educating and protecting consumers. The Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households, RBI, in its 2014 report for the first time laid down four design principles to guide the institutional frameworks, and regulation for effective policy framing for sustainable financial inclusion in India which are as follows:

- Stability,
- Transparency,
- Neutrality, and
- Responsibility
-

. The G20 Financial Inclusion Experts Group, 2014 also suggested a set of different principles with respect to innovative financial inclusion like:

- Leadership,
- Diversity,
- Empowerment,
- Protection,
- Co-operation,
- Proportionality,
- Framework,
- Knowledge, and
- Innovation.
-

The important concept is not the principle but the policy. The natural goal for any policy framework is to improve financial inclusion by maximizing on a sustainable basis, the availability of financial services to a wide range of users at affordable prices in a stable and sound financial system. The policy should ensure the direct government involvement in a constructive and cost-effective way. Based on these goals, these inclusive principles guide policy framework to improve financial inclusion. These principles are complementary, and should be considered together. These principles are not exhaustive and will evolve continuously over the time.

The principles serve as a guide for policy and regulatory approaches with the objectives of fostering safe and sound adoption of innovative low-cost financial delivery models and thus, help provide conditions for fair competition and a framework of incentives for participants like banks, and delivery of the full range of affordable and quality financial services. It is clear that even the policies are complementary in nature and are continuously evolving with time.

2.3 Characteristics and implementation of the policies and the principles

Government leadership and commitment at the highest level is an essential condition for increasing sustained financial inclusion. This is possible only when financial inclusion is treated as an essential part of strategic financial sector growth and development. The leader will also adopt collaborative approach with everyone for all the inclusive interventions. However, for successful implementation of a policy to support designing a new innovative model of financial inclusion appropriate reliable data and knowledge are needed to monitor and measure the impact of the policy over time. Few countries have such data but countries by adopting a test, monitor, assess and learn approach has overcome this barrier to examine new innovative, diverse services and business models under controlled conditions. As a result, an appropriate policy-regulatory balance between safety, soundness, growth and development could be framed.

Innovation is the application of new technologies, such as mobile phones, or the introduction of new institutional arrangements. It helps rapid expansion of financial inclusion by removing infrastructure weaknesses, and cost of delivery. Diversity is implementing policy approaches to promote competition and provide incentives for delivery and usage of sustainable financial inclusion through diverse service providers. If diverse products, providers and delivery channels are used and made accessed to the diverse and wide unbanked base then competition will produce values, choices and opportunities, but it needs incentives to be developed appropriately including market structures to promote entry.

Policies should bind with the new technologies to allow financial service providers and consumers to take advantage of technological innovations. Innovative new technologies like m-payments, m-banking hold promise for expanding financial inclusion. Borrower identification using biometric data make it easier and less expensive for people to use financial services, while increasing financial security. The impact of this can be amplified with option of business models that complement technology platforms like use of Business Correspondents (BCs) or banking correspondents.

Policies should ensure that innovative product designs foster the widespread use of financial services in such a way that it address market failures, meet consumer needs, and overcome behavioral problems. Financial products like index-based insurance can mitigate weather-related risks in agricultural production. This will help promote investment and productivity in agricultural firms. Improvements in lending to micro and small firms can be achieved by leveraging existing relationships like delivering credit through retail chains or large suppliers by relying on payment histories in making loan decisions; and lowering costs by using existing distribution networks.

The essential complements of consumer protection are financial literacy, financial capability and redress mechanism, and developing them helps the ability to understand basic information about financial products, make informed choices, and resolve disputes through recognized safe mechanisms, beside it reduces operational costs and barriers; and increases demand for relevant services. Thus, these are an integral part of expanding financial inclusion. In addition, government and regulators should also take responsibility to establish protections and trust in new services by creating appropriate authority to enforce protection and promote transparency in services and its pricing. An equitable transparent consumer protection infrastructure is needed to safeguard the inexperienced consumers.

Policies can enhance financial capability like financial knowledge, skills, attitudes, and behaviors through well-designed, targeted interventions. Financial education has a measurable impact if it reaches people during teachable moments, for instance, when they are starting a job or purchasing a major financial product. Financial education is especially beneficial for individuals with limited financial skills. Leveraging social networks by involving the whole family tends to enhance the impact of financial education. Delivery mode matters, too; thus, engaging delivery channels like entertainment education shows promise. In microenterprises, business training programs have been found to lead to improvements in knowledge, but have a relatively small impact on business practices and performance; and depend on context and gender with mixed results. The content of training also matters: simple rules training is more effective than standard training.

The nature of innovative financial services and new delivery channels requires adequate policy framing for the value chain it creates. This needs a lead agency which understands the incentives of each player in the value chain through coordination and partnership among multiple public institutions and regulatory agencies with clear lines of accountability. Building such a policy involves proportionate risks in such new services, the challenge is to create a framework which is strong enough to protect against such risks yet the compliance cost should not scare away the service providers and the users. This requires greater knowledge and cooperation to frame such effective proportionate regulation which demands compliance to mitigate risks.

The Policies to expand account penetration that require banks to offer basic, zero or low-fee accounts like no frill accounts in the past or the current Basic Savings Bank Deposit Accounts; that require granting exemptions from onerous documentation requirements by using alternative Aadhaar identification cards in India; by allowing small differential banking; and using e-payments into bank accounts for government payments or direct subsidies are especially effective among those people who are often excluded: the poor, women, and rural residents.

Performance of the Indian Banks

The Indian government, the various apex regulators and the Indian banks like in any other nation is in a transition stage continuously looking for a set of conditions, a set of principles that can spur innovation for financial inclusion while safeguarding financial stability, transparency, neutrality and responsibility. As such, we find that some of these models have actually been initiated by us in framing policies, some already implemented, and for some we are in a stage of gathering knowledge for adoption in future.

In India, the formal financial inclusion term appears for the first time in the RBI annual report 2004-2005. In the report, RBI emphasized it as a pressing need of the society and the economy. Simultaneously, RBI also started the revival of efforts towards financial inclusion; post the first slew of reforms including bank nationalization that was initiated in the 1960's. In 2004, RBI had set up the Khan Commission to look into financial inclusion. The recommendations of the commission were incorporated into the mid-term review of the RBI monetary policy (2005–06). In the report, RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic 'no-frills' banking account. In addition to this KYC (Know your Customer) norms were relaxed in 2005 for people intending to open accounts with annual deposits of less than Rs. 50,000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. The RBI adopted the bank-led model as its main plank for achieving the goals under financial inclusion

In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, India Post with its vast network and knowledge of local population, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. In 2006, RBI adopted the ICT based agent bank model through BCs for ensuring door step delivery of financial products and services. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts.

With experience and knowledge, RBI expanded the scope of BCs. In 2008, bank employees, ex-servicemen and retired government employees including companies registered under Section 25 of the Companies Act, 1956, were allowed to be used as BCs. In 2009, additional entities were allowed as BCs: individual kirana/ medical/fair price shop owners, individual Public Call Office operators, agents of small saving schemes of Government of India/insurance companies, individuals who owned petrol pumps, retired teachers, authorized functionaries of well-run SHGs linked to banks as well as banks allowed BCs to appoint sub-agents. The banks (not BCs) were also permitted to collect reasonable service charges from the customer, in a transparent manner. In 2010, banks were permitted to engage any individual as BCs.

In 2008, the report of the Rangarajan Committee on Financial Inclusion (RC), RBI, and the report of the Rajan Committee on Financial Sector Reforms, RBI spelt out the imperative need to modify the credit and financial services delivery system to achieve greater inclusion. The Rangarajan committee focused on improving the delivery systems, both conventional and innovative. Based on the Committee suggestions, Financial Stability and Development Council (FSDC) were created in 2010 as a super regulatory body dealing with Macro prudential and financial regularities in the whole financial sector of India.

RC also stressed on the use of technology with the BF and BC to form the core of the strategy for extending financial inclusion besides changing and simplifying procedures for small credits. The RRBs, post-first phase mergers in 2007, were to cover all unbanked villages in the districts where they are operating, either by opening a branch or through the BF/BC model in a time bound manner. Subsequently, in 2009, policies were changed to reduce the uneven spread of bank branches. RBI allowed domestic scheduled commercial banks to freely open branches in Tier 3 (upgraded to Tier 2 in 2013) to Tier 6 centers with population of less than 50,000 under general permission, subject to reporting. In 2011, banks had been again mandated to allocate at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centers.

RC also recommended launching a National Rural Financial Inclusion Plan (NRFIP) with a target to provide financial inclusion to at least 50% of financially excluded households by 2012 through rural/semi-urban branches of Commercial Banks and Regional Rural Banks, and the remaining by 2015. Subsequently, in 2010, all banks were advised to put in place a Board approved three years Financial Inclusion Plan (FIP) from 2010-2013 (Phase I). These plans broadly included self-determined targets branches to be opened; business correspondents (BCs) to be employed; coverage of unbanked villages with population above 2000 as also other unbanked villages with population below 2000 through branches/BCs/other modes; no-frill accounts (later on upgraded to Basic Savings Bank Deposit Accounts in 2012) opened including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC); and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate Board approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. To continue the process of ensuring access to banking services to the excluded, banks were advised to draw up a second 3-year FIP for the period 2013-16 (Phase II) disaggregated to the branch level.

During the Phase I, also known as the Swabhiman Scheme, 74,414 unbanked villages with population more than 2,000 were identified and allotted to various banks through SLBCs for coverage through various modes, that is, branches, BCs or other modes such as ATMs and satellite branches etc. All these unbanked villages have been covered by opening banking outlets comprising 2,493 branches, 69,589 BCs and 2,332 through other modes.

In Phase II, under the roadmap for provision of banking outlets in unbanked villages with population less than 2,000, about 4,90,000 unbanked villages were identified and allotted to banks for coverage in a time bound manner by March 31, 2016. In 2013-2014, nearly 328 million transactions were carried out in BC-ICT based accounts compared to 250 million transactions during 2012-13, but the average transaction per account was found to be low. RBI focused its monitoring more on usage of these accounts through issue of more credit products through this channel. RBI's review of the BC-ICT model showed the cash management system of the banks for BC operations was the major impediment. Recently, in 2014, RBI issued the guidelines asking banks to taper down the pre-funding conditions of BCs; increase the remuneration of BCs which has since been increased to Rs 5000/- pm, and the cash handled by BCs to be insured by the bank and be treated as the bank's cash.

The Rangarajan Committee (RC) also proposed the constitution of two funds with NABARD – the Financial Inclusion Promotion & Development Fund (FIF) and the Financial Inclusion Technology Fund (FITF) for promotional development initiatives for better credit absorption capacity and for application of technology for facilitating the mandated levels of inclusion. These were started in 2008 by the Central Government, RBI and NABARD in the ratio 40:40:20. The RC, 2008 also suggested a SHG-Bank Linkage promotion scheme to be extended to the urban areas, and recommended amendment to NABARD Act to enable it to provide micro finance services to the urban poor. It also suggested recognizing MF-NBFCs to act as micro insurance agents. It recommended revitalizing a financially sound cooperative bank structure and emphasized linking of micro credit with micro-insurance.

In 2009, with a view to ensuring that a larger section of the population is covered by the commitment of banks to provide easy, speedy and transparent access to banking services, the Banking Codes and Standards Board of India (BCSBI) decided to enroll scheduled urban cooperative banks (UCBs) and RRBs as its members. In 2012, it reintroduced the LBS in the urban areas for deepening the financial inclusion in the urban areas. In 2013, RBI had advised banks to consider setting up Ultra Small Branches (USBs) between the base branch and BCs to provide support to about 8-10 BC units at a reasonable distance. This will provide timely support to BC outlets, ensure close supervision of BC operations and give them credibility and increase people's confidence in BC services. Banks have also been advised to consider setting up Financial Inclusion Centres which would act as centres exclusively focusing on customers serviced through BCs.

Financial Literacy: In 2008, RBI started the project titled "Project Financial Literacy" with an objective to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defense personnel and senior citizens. Banks were advised to set up a financial literacy-cum-counselling center (FLCC). 942 Financial literary centers (FLCs) have since been set up as at end March 2014. These FLCs are creating awareness about banking products and services through indoor and outdoor activities. A total of 2.2 million people have been educated through indoor education to walk-in persons and through outdoor activities such as awareness camps/choupals, goshtis, seminars and lectures in an one-year period, from April 2012 to March 2013. In 2013, RBI advised all FLCs and rural branches of scheduled commercial banks to conduct a minimum of one outdoor financial literacy camp every month. Credit Counselling Centres deals with definition, the need and various issues relating to credit counselling. A few banks have already taken initiatives in opening credit counselling centres in the country.

In 2012, National Strategy for Financial Education (NSFE) was prepared under the aegis of a Technical Group of the Financial Stability Development Council (FSDC). The NSFE is expected to be implemented in a timeframe of five years and aims to establish initial contact with 500 million adults and educate them on key savings, protection and investment-related products so that they are empowered to take prudent financial decisions. It also seeks to create awareness about consumer protection and the grievance redressal mechanisms available in the country. Under the NSFE, a National Centre for Financial Education (NCFE) was set up as an institutional mechanism in 2013 to co-ordinate the efforts of all financial sector regulators. The NCFE has since launched a common website on financial education for the country.

Today, in order to spearhead efforts towards greater financial inclusion, the Reserve Bank has constituted a Financial Inclusion Advisory Committee (FIAC) in 2013. It will use the experience of its members to develop viable and sustainable banking service delivery models that provide accessible and affordable financial services; to develop products and processes for rural as well as urban consumers who are currently outside the banking network; and to create an appropriate regulatory framework to ensure that financial inclusion and financial stability move together.

Technology and progress: Banks including RRBs have since migrated to Core Banking System (CBS), and in 2011, it developed an in-built capability to provide remittances using electronic payment systems. Since then Banks have also implemented the Immediate Payments Service (IMPS), an instantaneous electronic funds transfer system facilitate customers to use mobile instruments as a channel for accessing their bank accounts and put high interbank fund transfers in a secured manner with immediate confirmation features.

Banks are increasingly using alternate channels of delivery; all the rural branches are expected to have an e-ATM in place in the near future. The Reserve Bank has played a proactive role in the rollout of the Direct Benefit Transfer (DBT) scheme as part of Aadhaar-enabled payment system (AEPS), as part of Financial Inclusion/ Electronic Benefit Transfer (EBT) implementation scheme. The DBT was rolled out in 43 districts in the first phase in 2013. Eventually, all districts in the country will be covered.

In keeping with this vision, RBI and the government has since taken few more innovative steps. One of them is the use of Indian Post Office with massive information technology modernization, has already migrated over 64 lakh accounts to CBS, have installed white label ATMs. In 2014, RBI has also issued authorization to four entities to operate white label ATMs the objective is to enhance the spread of ATMs in semi-urban and rural areas, where bank-owned ATM penetration has not been growing.

In 2013, RBI constituted a committee to examine the options/ alternatives, including the feasibility of using encrypted SMS based funds transfer using an application that can run on any type of handset for expansion of mobile banking in the country. For effective dissemination of financial services, RBI has allowed technology partners such as mobile companies to partner with banks in offering the services collaboratively. In 2016, RBI gave licenses to 8 new mobile banks/payment banks to allow mobile banking on all kinds of phones. These will include the basic ones which do not support internet or banking applications. USSD (unstructured supplementary service data) technology which works similar to SMS will facilitate this. These new services give consumers the convenient option of paying anyone at any time, from anywhere in a highly secure manner.

New Committee Report: The Committee (Mor Committee) on Comprehensive Financial Services for Small Business and Low Income Households submitted its report in 2014. The objective were to review the existing strategies for achieving financial inclusion; designing principles to develop institutional frameworks and regulation; and developing a comprehensive monitoring framework to track the progress made.

The report observed 60 per cent of the rural and urban population did not have a functional bank account. Concerted efforts are needed to ensure the achievement of several key goals such as universal access to a bank account; a ubiquitous payments infrastructure; and a base level suitable access to all the other financial products such as deposits, credit, investment and insurance within a relatively short period of time. The committee also recommended vertically differentiated banking system with lowered entry barriers but more functionally focused banks like Payments Banks, Wholesale Consumer Banks, and Wholesale Investment Banks. In keeping with the recommendation “Licensing of Payments Banks” and “Licensing of Small Banks” have been since issued in July 2014 for furthering financial inclusion. In keeping with the framework, RBI has since given license to a MFI, in April 2014, to start banking (Bandhan Bank) which is already having over 2100 branches spread over 22 states and majority of the branches are in the north-eastern states.

Comprehensive Financial Inclusion Plan: On 15th August 2014, a Comprehensive Financial Inclusion Plan (CFIP), or Sampoorn Vittiya Samaveshan, which is breathtaking in scope, and also known as 'Pradhan Mantri Jan Dhan Yojana’ was unveiled. It gave access to basic bank accounts to the poor with each account holder getting a Ru-Pay debit card and an Rs 1 lakh insurance cover in two phases. The government started channelizing all DBTs to these accounts and also paid the banks, a 2% commission or fee to sustain the cost of maintaining the account. Different district were allocated to different banks. The CFIP endeavored to provide universal access to all the beneficiaries through sub-service areas (SSAs). Each SSA consisted of 100-1,500 families in a cluster of villages and each SSA will be serviced by a BC whose task it will be to facilitate account opening and smooth banking operation. Reportedly, out of six lakh villages in India, around 80,000 villages have no electricity and the constraints of electricity directly impact the working of banks. Another, 50,000 villages are in forest or hilly areas which will be covered by telecom companies for mobile facility.

Measure of performance: RBI has adopted a Bank led branch and branchless neutral model. This model will perform slowly but will have stability of the financial system. Though measuring performance in financial inclusion is still in a growing stage, we find some developments have been made in India. In June 2013, CRISIL for the first time published a comprehensive financial inclusion index (Inclusix). For constructing the index, CRISIL identified three critical parameters of basic banking services namely branch penetration measured as number of bank branches per one lakh population , deposit penetration Measured as number of saving deposit accounts per one lakh population and credit penetration measured as average of three measures namely number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

The CRISIL Inclusix indicates that there is an overall improvement in the financial inclusion in India. CRISIL-Inclusix (on a scale of 100) increased from 35.4 in March 2009 to 37.6 in March 2010 to 40.1 in March 2011 and to 42.8 in March, 2012. Interestingly, this is treated as above average (score of <40.1 are treated as below average) which is way below the world average of 50. And, it disregards the payment and the risk determinants which together defines the financial inclusion. Still it is a one-of-its-kind tool which measures the extent of financial inclusion across India's 638 districts. The southern region has a score of 66.1 which is treated as high (score >55) and the eastern region 30.9. Similarly, in a different study by NABARD, the estimated values of a Financial Inclusion Index, (Mehrotra et al., 2009) at the state and district levels for India, indicate that there has been a relative improvement in the status of financial inclusion between 2002 and 2006 with the number of districts in the lowest grade declining from 378 to 330.

Conclusion

RBI has tried to create an enabling environment that facilitates competition and fosters innovation. International experience reflects that digitizing social transfers is an effective way of bringing the excluded within the financial system. Banks have only recently acknowledged that the rural poor are indeed bankable, and are working towards creating strong business models that while creating financial inclusion amongst the excluded; also make strong business sense to the banks themselves. Still, banks find more comforts in commercial and retail business, and are rarely interested in this segment of the business at the bottom of the pyramid. As such, The Business aspect of financial inclusion is the biggest psychological barrier in India. RBI has constantly and progressively been removing these physical barriers but removing psychological barrier in the mindset of the people working in these banks will remain a challenge. This is possible only when financial inclusion is treated as an essential part of strategic financial sector growth and development by the government and the regulators.

Going forward, RBI has already initiated steps in this direction by giving license to a small bank and has released draft guidelines for vertical differentiated banks. We hope that these Banks in future will introduce new products and services crafted to the needs and income streams of poor borrowers which will enable self-sustaining financial inclusion. While India has so far stayed clear of making mandatory subscription to such financial products, the failures of the NPS Lite scheme in the recent past point to a need for more creative ways to get more people to enlist themselves as benefactors of these products. One can only gauge the extent to which they shall succeed after these plans pan out in communities they are designed to succeed in.

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Research Office

Indian Institute of Management Kozhikode

IIMK Campus P. O.,

Kozhikode, Kerala, India,

PIN - 673 570

Phone: +91-495-2809238

Email: research@iimk.ac.in

Web: https://iimk.ac.in/faculty/publicationmenu.php