Financial Inclusion Initiatives in India.

Mandira Sharma, under the aegis of Indian Council for Research on International Economic Relations (ICRIER) has tried, in an expansive mode, to place India under various dimensions on the financial inclusion parameters. Her findings are an eye opener. India is placed at 29th place under Index of Financial Inclusion by the complex 3D method and 50th place by 2D method.

CGAP researchers in an exclusive and extensive article have narrated pretty lucidly the current history of financial inclusion initiative. Without elaborating on it further, suffice it to say that a starting point was made through the Khan Committee recommendations as early as 2005 as a prelude to the later day recommendations of the Rangarajan Committee in early 2008.

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Since we shall be restricted to this very definition throughout this article, let us break this sentence to take the purport of this very important definition. By breaking it down to in small phrases it turns out to be of many key words: Financial inclusion is a process of (bringing) the poor, weaker sections and vulnerable groups, (for whom) access to financial services, including credit, timely (on time, when they require the most) at an affordable cost or a price one feels possible to absorb service rendered.

The task of financial inclusion as a goal and target aimed was gigantic. This article is dealing with one of the process initiations as a means to reach that goal on a sustainable, self evolving, and transparent manner and gives maximum value to the outreach of banking services. By the process itself it would not prelude credit - adequate amount and timely delivery - at an affordable cost. All these parameters were dealt with other mechanism and recommendations as a way forward. But if we refer to the picture above, we shall obtrusively conclude that the small wheel carried the entire process of unfurling, spreading and making of a framework of functionality upon which relied a great deal on the wheel or the cycle to move. We are basically discerning as to how far we have succeeded in wheeling away to the desired destination. If we have not gone too far, Why not? What ailed it or is ailing it today and how we can make it work better?

*Santanu Sengupta*  
Chief Executive Officer, Study & Jobs Worldwide (SJW) and Secretary, Change Innovators Society, Kolkata
Agent Led or Branchless Banking Elsewhere:

The revolutionary policy initiation, however, had started as early as January 2006 when RBI came out with the first agent led or branchless banking initiative in the form of the circular on Business Correspondent/Business Facilitator Model, with a fair bit restrictions on eligibility criterion. The important point remains that, apart from other lofty intent, it was a marked departure from conventional thinking and replicating global standards set in other terrain. But before we embark upon to evaluate its pros or cons, let us find out other such exercise worldwide.

The early agent based branchless banking was initiated in Brazil and Philippines by various entities. Brazil’s various banks and its subsidiaries have opened up to 95000 agent network spurred by a legal provision where it was allowed “geographic coverage to such a stunning extent: an agent is legally able to deposit its excess cash in to its account with its sponsoring bank through the branch of any bank, at no extra cost, and without having to open an account at that bank.” (Jim Rosenberg, Cgap).

Similar success stories abound from Kenya, South Africa and Philippines. These are achievements as a prelude to the current day Mobile Money through which Africa and Latin America are creating gigantic strides on their initiative of financial inclusion. The reference such as M-pesa in Kenya, G-cash in Philippines are almost synonymous of such a move. And this trend was pretty visible as foreseen by David Birch, of chYp as early as in 2005 December. And it was happening all over Latin America, Africa, in Philippines and elsewhere.

What Made it Work Elsewhere

In the Brazil’s experience, it is important to note that the legal framework was amended to facilitate the change required to accelerate the pace of inclusion based on transparency, efficacy and cost effectiveness. Regulatory authorities, worldwide, are difficult institutions because of their intrinsic nature of the job. But one must appreciate the bold innovative decisions taken by them to expedite the process of inclusion.

One of the main stumbling blocks to free the payment and settlement and utilisation of off-branch agent network is to involve the stakeholders across the board at an evenly spread risk sharing basis. This requires laying down a finely balanced synchronised and shared network with defined SLAs and SOPs. A very important step was the regulatory policies of payment and settlement mechanism across the board. Brazil and South Africa were able to do it as early as 2005-06 and continued with the various changes as it expanded. It is important here to note that M-Pesa, since its first launch, had been able to enrol as many as 700,000 customers in the first seven months of its roll out itself. This number may look small compared to Indian numbers, but one should remember the population and size of Kenya, to the total teledensity in that country.

The question that would arise, obviously, is why India as a powerhouse could not do so what other lesser countries could espouse. The sentiment could be echoed in the speech delivered on October 20, 2006 by Dr. Y.V. Reddy who emphasised that safety first for the poorer and vulnerable section was of paramount importance. He said “……ensuring safe and expeditious movement of funds at an optimal cost is the key to success of all payment system reforms…The relatively late adoption of technology by us and the recent initiation of reforms in payment and settlement systems have in some way proved to be a sort of blessing in disguise by enabling us to take advantage of the experience of the innovators.” He continued thus, “…We, in India, have been attempting an active approach towards financial inclusion in the recent past. Hence, access to funds transfer services at economical rates to the vast majority of the country’s population would be essential for securing financial inclusion as also for reducing the dependence on non-banking channels for remittance of funds.”

By these various assertions, we get to know the regulators’ concern as well as the awareness that we were late.
**THE BC & BF Guidelines**

The Reserve Bank, in line with global trends, ushered in the branchless banking as an important first step towards universal financial inclusion. It was done with caution or avowed opposition, perceived as well notional, as it attacked the conventional thinking and taking on the powerful bank unions who would take on these initiatives as an obvious outsourcing efforts. Although there was no such declared or avowed opposition, it did not evoke any great appreciation either. The general mood was one of incredulity or age old legacy that banking is an inviolable institution and it will be difficult to manage and give value based service to the customers in this manner. But let us find out what was intended and how the process unfurled. The important points were:

Banks would be free to appoint an agent in the form of some entities having the necessary wherewithal to manage the business on behalf of the bank to take deposits and pay out the amount so deposited in his or her account of small value transaction, of certain numbers in the interim. But most importantly the agent appointment was restricted to ‘Not for profit’ organisations only like NGOs, trusts or entities under Society’s Act. No NFBC was allowed to become an agent.

Initially the accounts were opened all across the branches in the districts. Later on the radius of command area was restricted to 15/30 km in rural areas and 5 km in the urban limits. Value limitations were also in force to qualify as the no frill account. Although the banks always wanted to start with some funds in place to cover its operations cost.

KYC norms were relaxed; initially only limited numbers of deposit and withdrawal were permitted. Later on remittance, third party payments as well as fixed deposits were also to be allowed. Both conventional as well as bio metric smart card based accounts were also opened. Initially the biometric devices were pre programmed to handle certain transactions in numbers and value and logged onto the website for validation and transfer to unlock the device so that controls remained at the remote server. Later on, the biometric devices were made to work always online mode to generate transaction receipt somewhat akin to a debit or credit card transaction. There were some eligibility criterion of BC/ BF and many other accompanied issues which needed to be addressed as to the basic inadequacies of the models. So it was greeted with guarded optimism.

**The Stumbling Blocks on Way Forward**

The assumption that it will be a huge successful model in the back drop of Indian banks looking to address fundamental issues is faulty. One of the best foot forward was to narrow the gap of deposit growth vis- a- vis credit growth. How could one possibly have the deposit growth, unless you bring in millions of unbanked households? The big question was how to snare the households in the banking net. The notification of BC/ BF was not electrifying as the steps were pretty tentative and did not exactly leave any real impact.

**Underlying Drawbacks in the Model:**

1) BCs were barred from collecting any fees from the clients except commissions or service charges by the bank and banks could not hike interest beyond the prime lending rates. In the absence of the value added services that could have been bunched together, the incentive was clearly lacking.

2) Restricting the command area further to 15/30 km in rural as well 5 km in urban areas were a further damper as it put the tech savvy private sector banks at a great disadvantage. They did not have many rural branches which put them in a disadvantage as their effort to use technology in servicing the remote areas through the state wide organisations were put to rest. They slowly concentrated more on the urban sectors in select cities.

3) There were not enough qualified vendors to run the show as an entity like trust or NGO having field agents, conversant with technology as well as management skill of financial services.

4) As the product was new, there was no awareness amongst the people, the staff of panchayats or state governments.

5) The other segment of MFI-NGOs found the hassle of daily reporting vis- a- vis small gains of such exercise as not worth. NGO MFIs felt that by mobilising deposit and brining the customers closer to banks, their customer base would be susceptible to poaching by bank managers. So they continued to dither on the scheme.

6) Except some pilots, nationalised banks took long time to come out with any concrete plan to augment no frill accounts on an overdrive.

7) For non-card based account opening efforts, it was not possible to service that segment of the customers who were required to travel to the branch which were quite far in most cases.

8) For card based accounts, the requirement of daily reporting norm was an impediment. Another big issue was cash management of netting deposits and withdrawals and lack of insurance cover of cash in transit.
9) Initial efforts to get the BC model linked up with the Common Services Centres were not allowed on the premise that BCs were supposed to be non-profit. Only BFs were allowed to be associated. On the contrary, CSC operators also could not find a way around to this rule by association with qualified BCs who could use the idle infrastructure to the operation’s benefit. Had it happened by the end of 2008-09, we could have had a lot more service points for potential BCs.

10) The cost estimates of an account opening exercise including survey, awareness camp, literature distribution, commission to BCs and the maintenance cost varied a great deal depending on device used or methods used. There were no account maintenance charges by nationalised as opposed to private banks. Standard acquisition cost is estimated to be roughly between Rs 70 - Rs 80 per account. Apart from the initial cost, there will be transaction cost or account maintenance cost for operating accounts.

Despite all these shortcomings, an estimated four crore new no frill accounts have been opened by end March 2009. There is hardly any data and impact assessment as to the quality of these accounts.

Absence of Impact Assessment

State Bank of India, in its report of assessment in February 2009, mentioned that they have covered 17 states and 61 districts including 9 states and 21 districts in the north east and issued 18 lakh cards as on March 31, 2009. (IDRBT, Hyderabad).

FINO, one of the front runners in the catapulting India’s transformation to financial inclusion, states that they have enrolled about 6.1 million people to open bank accounts. So far, we have not come across a single impact assessment anywhere. SLBC West Bengal data indicates the average balance maintained @ Rs 2000 per customer which means average incremental growth in deposit should have been pretty impressive. The increase in no frills accounts from 2006 to 2008-09 has been almost three fold. The nationalised banks which have been a relative late starter have been pushing for the growth elasticity more of late.

Reference to Impact Assessment

Impact measurement metrics is one of the best ways to prove whether a particular mission is of any success, mid way or in the near term. While inclusive growth and financial inclusion has to be sustainable in the longer term, there has to be a short term benchmark as to the yardstick of how we have achieved. Opening accounts is a definite way forward but does not justify financial inclusion. Nor has it been made out to be by our policy framers. It has to mean even in the short term a) accounts opened b) user behaviour in transacting the account c) type of user activity d) whether clients feel that by using the service he/she or the family has gained any tangible benefit in his/her lifestyle.

A reference may be made to the CAB-IFMR joint study report on the usage behaviour analysis of no frills accounts in Cuddalore district which tried to get to the bottom of this matter seriously. The study and revelations as well as the recommendations are in line with general understanding of the scheme. The fact that 85-90 per cent of the accounts remained in operative and that even after the focused campaign, 25.3 per cent had remained outside the purview of the banking net.

The mission mode project of financial inclusion too has many such intrinsic elements which justify a gigantic effort to transform the societal changes thereby contributing to the overall growth in a given country, as in roads, bridges, electrification, rural housing, etc. But the problem remains one of tangibility. Financial services usually take a longer curve. These are best described in terms of saving in efforts to result in time saving to cost saving in transit. And the compounded incremental savings is sometimes 3 percent of the GDP as shown by Jose Antonio Marciano in his presentation pertaining to Brazil.

It takes longer time for rural community to comprehend the value for time for those are elastic to them in daily life (Thyagarajan, 2008). But for those, as in mobile usage and e-commerce, rural folks are also realising and are moving in soaring numbers of first time service entrepreneurs to be associated with such activities increasingly. Brazil is way up in behavioural change leading to financial deepening where the more hallowed peers like China and India do not figure
anywhere near. It resulted in the high growth in financial transactions, deepening of services as well as continued quality development in services at all levels, branches, ATM, debit card and credit card usage.

**BC/BF Model: The Way Forward**

Since the financial inclusion agenda is governments’ brainchild, the onus and drive has to be that of the government. It will have to be a political decision and it is the onus of the government to build a financial superhighway. The enabling investment has to come from the government. The RBI need to pep up banks that will complement to do a commendable implementation of the focus and target set. It cannot be a cosmetic or quota oriented. It will have to be uniform, cutting across caste, creed, religion or pressure groups.

Secondly, it will depend on what kind of partnership it will choose in the future. Like our experience during the formulating national e-governance plan, it was fairly pluralistic, euphoric, widely debated, with multi stake holders coming together to form a policy vis a vis implementation road map. Huge amount have been earmarked and spent in making it happen. It is still hobbling. But we all know, we shall reach that plateau sooner or later in some form. We need a champion in the financial inclusion sphere too. There is no short cut to excellence, in any form.

**Policy Thrust**

- The tentative push is gradually transforming into a serious effort, albeit, to wean the customers to no frill account. More and more public sector banks led by State Bank of India are becoming active players. The private sector banks are gradually fading in comparison as they feel they are not going to be able to sustain their effort in their present form as by sheer outreach they cannot match the tech savvy public sector banks.

- We also have seen that numbers have jumped dramatically during the last year. The next level improvement and consolidation of NREGA will depend of how the bank accounts are opened, maintained and used in its effective tool in directing the fruits of growth reaches the target groups. The central government should involve all state governments to make it mandatory to participate in the financial inclusion as a sop to avail certain developmental aid fund as a stimulus for the financial inclusion programme. Participation of panchayat and local self government is a must for the success of such programmes.

- It has to come out of choosing partners of progress without any bias of composition or constitution. This will be a professional job, a job of highest level of financial management with man and enterprise management at an affordable cost to be absorbed by the people for whom it is intended. And for this we do not need to look far. A look at IRCTC, running one of the biggest e-commerce portal making available services to anyone in almost all corners at a price affordable at the place, is a pointer. So will it be in financial services too, where value and demand will determine price discovery. Hence, there should not be any bar or restriction on who is the service provider as long as they conform to the established norm. Hence the eligibility criterion needs to be redefined.

- The ambit or scope of work needs to be redefined too. Every service has to have a value proposition inbuilt into the service delivery metrics. It has to be collaborative on all fronts, to create a win-win situation for all the stake holders. It has been made easy now with the introduction of both the right regulatory environment in place as in Payments and Settlement Systems Act, 2007. So we can rewrite the entire stake holding pattern afresh. In the last West Bengal SLBC meeting it was established again that BCs were not having enough incentives to carry forward with the task. It is now we need to revisit Brazilian and African entities. While Kenyan example may be too radical for India, both Brazil and South Africa are a case in point to refer to. Brazil’s success lies in successfully snaring up account. More and more public sector banks led by and utilising the postal network there. State Bank of India are becoming active players. The private sector banks are gradually fading in comparison as they feel they are not going to be able to sustain their effort in their present form as by sheer outreach they cannot match the tech savvy public sector banks. Inclusive growth has to come from within. How do we go about it?

- Worldwide, there is a turf war going on in mobile banking, commerce and transfer. India too has passed regulation pertaining to mobile banking. Some banks have already started mobile banking services for their customers. The issue here as in elsewhere, is not the traditional bank vs. telco fiasco. Our telecom companies are the most profitable, the most tech savvy and have the customer loyalty, huge outreach and ability to offer very small value transaction at an affordable price. Already the collaboration is on the air
and would be on the ground soon. Would it mean the end of the BC – BF Model and replicating M Pesa or Zap or Gcash or WING model of Cambodia?

✓ Without the involvement of Mobile Network Operator (MNOs), we may not be able to scale up the BC model. Gradually BFs will die out or remain a separate unit of the BCs, as the value proposition will simply push them off to a non-level playing field. Like in China, in India too, the Mobile Virtual Network Operators (MVNOs), like the Grameen Phone, could be an ideal partner as the carriers on the field.

✓ Post Offices are the next best value for money provided they hold hands with banks. State Bank is already halfway through with them. Already they are onto the speed transfer or remittance business. We can learn from the Brazilian experience as also some other countries pushing for such an outlet.

✓ We shall see MFIs entering this field as they have the best human network.

✓ As with every dose of inclusion, these entities will have to move up the value chain on to BDS (Business Development Services) segment. The financial services domain will be one of the hotbed of services as already an MFI has tied up with some telecom companies to finance acquisition of mobile phones. The next step will be the e-cards or Bancards with stored value cards with top up facilities and soon we shall see chota recharge in this sphere too.

✓ Contrary to many views around the world, India will not skip couple of steps to move on to full scale Mobile banking especially on Mpins. But technology and security apart, moving up the demand chain will see some more time as our lower stratum are still not adept at SMS retrieving. The POS terminals, or a combination of limited mobility with stored value cards will serve in the interim, till maturity of the market happens.

Conclusions

BC/BF model is just one of the models as a process initiator in the long march to financial inclusion. It was coined up as an agent led model to the Indian context, but was ridden with many inner contradictions. It was restrictive and lacked teeth as it was a tentative probe to test the market.

The world has moved many miles ahead in between and we need to catch up and open up shackled financial services domain. If we give the common persons the means like in Mpesa or Tagpay in Nigeria with Zenith Bank, the stored value surplus in their wallet linked to bank account somewhere, the virtual account perhaps will open up a big window of opportunity for all the stakeholders. As far as the non-banking channels for remittance facilities concerned, there is no such suzerainty as it may not have to be the banks domain in entirety. There is room for plenty of players. In fact, gradually it will be burdensome for the banks to deal in such small value products as they will have other major development plank to service the MSME sector. With the entry of Western Union recently in pilot exercise of Mobile money, IT and telecom sector will complement the banks in serving the poor migrant workers at an affordable cost. We expect a revamped BC/BF model will be on the card very soon. We require a sophisticated version of the most efficient low cost intermediation with all the stake holders pitching in a mission mode project to make it happen.