Financial Inclusion & Financial Literacy: SBI Initiatives

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Scope of Financial Inclusion in Commercial Banks

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc. and all this at a reasonable cost.

Role of Commercial Banks and the Way Forward

The Family Resources Survey indicated that in 2002/03 there were 1.9 million households without a bank account of any kind, containing around 2.8 million adults. The Indian households can be broadly divided in to two main groups, rural and urban. To have effective financial inclusion, the banks have to always keep in mind these target-groups and bring them to banking fold in such a way that it is a win- win situation for both. Commercial banks can step in to augment financial inclusion in two ways (i) providing banking and other related services and (ii) providing non-banking services and support

Banking and Other Related Services

To ensure banking services are attractive to those with low incomes, banking products must have features that meet the needs of this group of consumers. For this, the banks have to develop:

- Basic Banking Account
- Low cost bill payment systems
- Technology driven products
- Bio-metric ATMs
- Pre-paid Cards
- Internet Kiosks
- Deposit accounts, which offer an overdraft and an easy route to debt.
- Affordable insurance products
  - For individuals
  - For business enterprise

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- For Agri activities such as, weather/ cattle/ poultry
- Retail Loans at all centres with simplified documentation and procedures through:
  - Self Help Groups
  - Micro Finance Institutions
  - Loans to Small Medium Enterprise
- Giving advisory services

Once the banks have broadly decided on the range of products, they must customise it to suit the customer as per geographical area, method, and approach to be adopted.

Rural Areas

India has a rural population of about 780 million with limited or no access to financial services. The branch banking route apparently is not very practical due to the huge cost of opening the branches vis-a-vis volumes expected, high costs of operations, limited banking hours, illiteracy, non-availability of alternate channels in rural centres, etc. Further, financial inclusion through branch network may adversely affect customer service at branches due to increased traffic and larger numbers of people to be attended to within the limited hours of banking.

Therefore, the banks will have to provide technology driven products such as, ATMs, internet kiosks for successfully implementing financial inclusion. The involvement of Self Help Groups and Micro Finance Institutions is also must for development of effective financial inclusion models by commercial banks.

In the context of India becoming one of the largest micro finance markets in the world, especially in the area of women's savings and credit groups (SHGs) and the sustaining success of such institutions as demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable proposition. SBI alone, as on date, has credit linked over 850,000 Self Help Groups, lending approx. Rs.4, 000 crore to these groups. The NPA in this segment which is below 1 per cent is proof of the viability of such projects.

Urban Area

Contrary to popular concepts of a predominantly rural India, an increasing percentage of Indian population lives in the urban areas. Over the last fifty years, while the country's population has grown by 2.5 times, in the urban areas it has grown by five times. High incidence marginal employment and urban poverty as reflected in 43rd of NSS revealed that 41.8 million urban people lived below the poverty line.

Inspite of its prominent role in Indian economy, urban India faces serious problems due to population pressure. According to an estimate, nearly one third of the urban India lives below poverty line. About 15 percent of the urbanites do not have access to safe drinking water and about 50 percent are not covered by sanitary facilities.

In this context, banks need to provide financial services which have to include savings, credit, insurance, leasing, money transfer, equity transaction, etc. to financial needs, life cycle, economic opportunities and emergency with the only qualification that (i) transaction value is small and (ii) customers are poor. For this, banks can offer the same product range as in rural areas and can also provide smart cards such as pre paid cards or reloadable cards. These cards can be used by employers towards wage payment of contracted labour or other utility service providers.

Micro Enterprises

At the bottom of the SME pyramid, we have the micro enterprise segment. Financial inclusion of this segment has been the key concern of the Government and the regulators in most of the developing economies, including India.

In India, we have had several efforts to cover micro enterprises with bankable schemes. Some of them have been Government directed like, the efforts to grow Khadi & Village Industries, schemes like the IRDP, SEEUY, SUME, SEPUP. But the success story in this segment has been the voluntary development of the SHGs. The SHG movement has been gaining momentum in the country. In other developing economies like Bangladesh, Indonesia, Bolivia, etc. too, SHG movement has taken strong roots and has been a key to the financial inclusion of micro enterprises.

In India, the SHG funding or micro-finance, is directed towards the micro enterprise of the members of the group. It is the integrity of the members of the group that is essential for the commercial banks to support them. The funding to the SHGs in the form of micro-finance has to evolve into proper funding for the micro enterprises.

The process that can hasten this is the stabilisation of the credit bureau(s), voluntary development of groups based upon socio communal forces and support to the commercial banks from the regulators to have differential treatment for such banking coverage from the usual provisioning and regulatory norms. Success of financial inclusion depends upon the sustainability and not on subsidies and incentives.

Advisory Services

The banks have to take on the role of an advisor for poor and disadvantaged as the right advice at a difficult time can go a long way. This approach recognises the close two-way links between poverty and deprivation on the one hand and being unable to find and use appropriate financial products and services on the other.

The banks must advise on:

- Reducing the vulnerability of low income families to financial exclusion and multiple debts in order to prevent them from becoming over-indebted and/or to lift them out of poverty.
- Improving access to high quality services for the most disadvantaged groups and individuals in rural communities.
- Managing problem debt and the other interlinked difficulties that people often face.
- Protection from loan sharks.
- Information about where to go to get expert help when people are in difficulty.
- Business related issues such as. best insurance deals, availability of raw material, plant and machinery, agri inputs, helping in forming forward and backward linkages, providing information on various markets local as well as abroad and providing marketing inputs

To provide above mentioned services, banks will have to restructure and look for IT enabled service providers such as, interactive internet kiosks, help desk at strategic locations, wherever needed manned Kiosk, and telephone help lines / call centres.

Non Banking Activities

It is essential that an institution which uses resource of the society must contribute to society through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy. The banks need to involve more actively in community service and voluntarily create funds to:

- support social and philanthropic activities such as, education programmes for under privileged, environmental projects related to, water harvesting, aforestation, pollution control, and sanitation
- Support projects which may provide (i) sustained employment for vulnerable and disadvantaged groups, (ii) improving the confidence and skills of the most disadvantaged children and young people by conducting work shops or providing vocational training, (iii) health improvement programmes for people living in the most deprived communities, (iv) for upliftment of weaker sections of society, (v) creating jobs and enlightening women, and (vi) to remove superstition and ignorance
- Support organisations which provide (i) for improving access to high quality services for the most disadvantaged groups and individuals in rural communities by supporting small infrastructure projects and IT enabled services, (ii) support to particular client groups such as old, minority ethnic communities, lone parents, disabled people, carers, families with young children, people with mental health problems or learning disabilities, and (iii) services that may help solve problems of financial exclusion, such as, post offices, registered social landlords, housing, welfare rights and legal advice services, homelessness units and hostels, family learning projects, enterprise networks and local economic development companies, development trusts, GPs, community health services, hospitals, health voluntary organisations.

Business Model

The banking needs of these financially excluded people are mostly of limited transactions with low value in nature. Running a full fledged rural outfit is not a viable proposition considering the involvement of huge operational cost. Business Correspondents (BCs) model is ideally the alternate viable business model in order to have a greater coverage of these people in rural and other area. Under the set-up, the bank is permitted by RBI to outsource selected banking services through Business Correspondents (BCs) and their authorized agents. The customers shall have the freedom to use branch banking facilities even though the business correspondents are available in their locality or they were initially sponsored by the business correspondents.

Requirements for the Business Model

- A proven & tested software solution
- Hardware & other equipments compatible to software application
- Financially sound, established, experienced & reputed business correspondents with adequate expertise and manpower
- Uninterrupted tele-connectivity

Features of the IT Solution

- Low operational cost
- Scalable
- User friendly
- Secured
- Inter-operable
- Compliant to legal system
- Standardized
- Viable & Profitable
- Sustainable

SBI's Initiatives for Financial Inclusion

The objective of State Bank of India in the present day context is to ensure financial inclusion of the whole population irrespective of areas and sectors. The 'inclusion' phenomenon cannot be confined to few pockets of area and people. The important question is increasing outreach and deepening penetration. There are two ways of doing it: i) through the brick and mortar rural branches, ii) outsourcing all the functions to a business correspondent in a particular area, viz., a state or with the help of business facilitators at a local level. Large scale roll out and rapid scaling up again is not possible without suitable technology intervention which is easy to use, robust, dependable and, at the same time, cost-efficient.

SBI's answer to financial inclusion is the 'SBI Tiny project', which can in simple terms be defined as a "Bank in a Box". The entire set up consists of a cell phone which serves as POS machine, a finger print reader and a tiny printer, all of which can be packed into a 10 inch by 10 inch box. All these work on rechargeable batteries. SBI Tiny accounts (no frills accounts) are opened on the smart cards. The smart card is akin to an e-purse and stores information about the customer, the account number, finger prints as well as the balance in the account. The smart card can handle up to 16 accounts including loan accounts. This card is highly secure as it works on the bio-metric validation of the customer. The card works on the Radio

Frequency Identification (RFID) technology. SBI is today using this technology in our smart cards which work in conjunction with a mobile or a hand held connectivity device which works on Near Field Communication Technology (NFC). Transactions are possible both in online and off line mode. It also permits the real time updation of balances in the card. By issuing a smart card to the rural customer, the cost of the transaction is reduced because we are dispensing with paper based transactions and shifting the actual operation of transacting on the account away from the branch to Customer Service Point / Provider (CSP) at the outlet in the location of the rural customer.

SBI is running pilots at several places like Aizawl (Mizoram), Medak and Warangal (Andhra Pradesh), Pithoragarh (Uttarakhand) and West Garo Hills (Megalaya). Andhra Pradesh has been identified by our bank for carrying out disbursements under National Rural Employment Guarantee Programme (NREGP) and other rural development schemes through SBI Tiny Card accounts in Warangal and Medak districts. The scheme is also being extended to areas like Chamoli and Pauri in Uttrakhand and Titabar in North East.

Challenges

Financial inclusion in a large scale is possible only if the banks join hands with like minded partners in their initiative. While business correspondent model introduced by RBI enables such partnerships to evolve, the major concerns would be as under:

- As there is no proven / tested model, the initial take off may be slow till sufficient experience is gathered.
- It is essential that the programme is viable for all the partners. However, payment of fee / commission, etc. to the business correspondent, has no precedence and will evolve over time.
- Risk management, operations, registration, credit, etc are a major issues.
- Cash management by the business correspondents is also an issue which can affect the reputation of the bank.

But these are not insurmountable. With experience and over a period of time, these can be sorted out and standards laid down.

Conclusion

Financial inclusion is not a one time effort; it is an ongoing process. It is a huge project which requires concerted and team efforts from all the stake holders – the Government, financial institutions, the regulators, the private sector and the community at large. From the sporadic attempts of today dispersed across the nation, it should gather momentum and grow in geometric proportions and develop into a focused and effective movement. If this is to be achieved, it requires the passionate involvement, dedication and commitment of all stake holders. It requires a major mindset change in the minds of every individual involved – banker, bureaucrat, regulator et al, and, therefore, creating awareness at all levels. At the same time, the role of technology in the whole scenario cannot be undermined either. It has to be admitted that today, more than even before, technology plays a vital role in bringing about integration in society of all social and economic classes. Accessibility, affordability, appropriateness and benefits determine how deep financial inclusion penetrates the social fabric of the village. Financial inclusion can empower even the poorest person and bring about a dramatic change in his fate.

As observed by Dr. Yunus, "…….basic ingredient of overcoming poverty is packed inside each poor person. All we need to do is to help this person to unleash this energy and creativity.... Only place in the world where poverty will exist will be in the museums and no longer in human society." With combined efforts of all the stake holders, viz., policy makers, regulators, banks, NGOs, MFIs and other similar entities, this can be made possible.