The challenge of financial inclusion

C. R. L. Narasimhan

Financial inclusion and financial literacy have been important policy goals for quite some time. The Finance Minister has emphasised inclusion in the budget speech. At various fora, the Reserve Bank of India (RBI) and senior government officials had been hinting at a “big-bang” action plan for financial inclusion to be announced by Prime Minister Narendra Modi in his Independence Day address to the nation. There were reports of the authorities getting ready with a Comprehensive Financial Inclusion Plan (CFIP) or Sampoorn Vittiya Samaveshan in Hindi, which will be breathtaking in scope and extremely ambitious.

The Prime Minister did not disappoint. The Pradhan Mantri Jan-Dhan Yojana, which figured prominently in his speech, heralded the new plan of action. It will be based substantially on the CFIP. Details are, however, awaited.

There is a long history of financial inclusion in India. It has traditionally been understood to mean opening new bank branches in rural and unbanked areas. Nowadays, however, financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country. In the context of the various shortcomings in delivering subsidies, direct transfers using technology have been thought of. The beneficiary needs to have at least one bank account. Since in a logistics point of view it is impossible to open that many physical branches — the brick and mortar type — the accent will be on opening electronic accounts. Technology adaptation would be a key feature in this scheme for financial inclusion.

The RBI has, in the recent past, taken several steps to further inclusion. Very recently, it circulated for public comment two sets of draft guidelines for issuing licences to payment banks and small banks.

These niche banks with lower entry-level norms than for normal commercial banks are meant to further inclusion. While it will take a while for these banks to come up, it is obvious that the RBI is betting on them to provide banking services to those who remain outside the purview of formal banking.

Understanding financial inclusion

Recently, the RBI Governor Raghuram Rajan outlined, in conceptual terms, what inclusion should be. “Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians,” he said. Further, “in order to draw in the poor, the products should address their needs — a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age.”

The RBI will accordingly nudge banks to offer a basic suite of services.

While over the years the government has taken several steps to spread the banking habit, formidable tasks lie ahead. Of the 24.67 crore households in the country, 10.19 crore do not have access to banking services. In rural areas, 44 per cent households and in urban areas 33 per cent still do not have a bank account.

The government’s latest plan of action, as envisaged in the CFIP or Sampoorn Vittiya Samaveshan, hopes to extend coverage of basic financial services all excluded households. In the first phase, the CFIP will endeavour to provide universal access to all the beneficiaries through sub-service areas (SSAs). Each SSA will consist of 100-1,500 families in a cluster of villages and each SSA will be serviced by a BC agent (BCA) whose task it will be to facilitate account opening and smooth banking operation.

The latest inclusion plan will have as its focus households rather than geographical areas. After satisfactory conduct of accounts it is proposed to offer reasonable need-based credit facilities for which overdraft facilities will be sanctioned. A smart card (RuPay card) will be issued to enable customers to operate their accounts even without BCs. Simultaneously suitable awareness will be created among the financially excluded.

In the second phase, there is a proposal to make available a pension scheme for identified individuals in the unorganised sector and offer microfinance products through government-owned insurance companies.

For the Jan-Dhan Yojana to succeed the following steps are indicated:

(1) The business correspondent model should be extended to include entities such as kirana shops, corporates and others. It is obvious that BCs need to be properly remunerated and have the full support of banks. Banks have tied up with common service centres (CSCs) as BCs.

(2) Insistence on KYC (Know your customer) norms has hindered the opening of new accounts even in urban areas. Great significance is, therefore, attached to e-KYCs. The Aadhaar can play an extremely useful role.

(3) Since mobile banking through phones is to play an increasingly important role in a scenario where physical bank branches will be few, greater co-ordination between mobile telephone companies and banks will be necessary.

(4) It goes without saying that State governments’ support will be crucial.

(5) Commercial viability will be the key to the programme’s success. Past experience suggests that without proper incentives, the facilities on offer will not be used by the really needy. Banks will be saddled with a large number of dormant accounts.

By far the biggest challenge is one of altering the mindset — of banks, policy makers and bank customers, both potential and existing.