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EFFECTIVE DELIVERY MODEL TO REACH OUT UNBANKED RURAL AREAS

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ABSTRACT *The objective of this paper is to find an effective delivery model to reach out unbanked rural customers. Appropriate financial products and services for all sections of the society and this paper accounts for weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream.This paper deals with study of various financial delivery models to find effective delivery model which would be suitable for unbanked low income groups.*

KEYWORDS : Financial Inclusion, Self Help Groups-bank linkage, Micro Finance Institutions, Business Correspondent Model.

INTRODUCTION

Financial Inclusion defined 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 (RBI). The Committee on Financial Inclusion headed by Dr. Rangarajan has defined Financial Inclusion as "the process of ensuring access to financial services and timely & adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". The Committee suggested several measures to accelerate the pace of financial inclusion. The various financial services include access to savings, loan, insurance, payments and remittance facilities to the entire population without discrimination of any type. Financial inclusion which include both access and usage should be applied, since access and usage are not the same but supplementary. Informal financial services should also be included as they play a big role in developing countries (Josiah Aduda, 2012).Financial inclusion is a multi-dimensional, pro-client concept, encompassing better access, better products and services, and better use (Monique Cohen and Candace Nelson, 2011).Jan Dhan Yojana (People's Wealth Plan) – an ambitious financial inclusion program – was launched amid much fanfare in India on 28th August, 2014. The initial target of Jan Dhan Yojana is to cover 75 million unbanked households by 26th January, 2015. The government claims that on the inaugural day, a record 15 million bank accounts were opened across the country under this initiative. Nowhere else in the world, such a large number of bank accounts have been opened on a single day. In less than a month, nearly 40 million accounts have been opened under this initiative (Kavaljit Singh, 2014).

THEORTICAL BACKGROUND

V. Leeladhar (2005) stated financial inclusion can be achieved in a cost effective manner through forging linkage with micro finance institutions and local communities. Beck, Demirguc-Kunt and Peria (2006) stated Access to financial services allows lower income groups to save money outside the house safely, prevents concentration of economic power with a few individuals and mitigates the risk that poor people face as a result of economic shocks'. Chowdhury (2010) stated the composition of a sequence of three main entities; the bank, the retail agent, and the customer. Prabha (2012) stated the importance of technology in delivery of financial services to unbanked areas, a technology driven low cost platform has been designed, which since its implementation is the preferred route for reaching out to the excluded sections of the society. Dr. Atul Bansal (2012) analyzed banks need to take bold decisions and reach out to rural India with strategies and business models which are beyond the realm of conventional thinking. Shunko Rojas (2012) stated mobile banking, institutional innovations and improvements in performance have revolutionized the field making private actors, international institutions and governments focus on this industry in constant development. D. Subbarao (2012) explained RBI's rationale for endorsing the bank-led mobile banking model. He said that while globally the delivery of payment services through mobile has followed two models viz. bank-led model and non-bank led model, the first model offers a couple of key advantages over the second one. Jake Kendall (2012) explained bank led model in that he believe that payments are an optimal gateway product for financially underserved households. Unlike credit, insurance, and savings, payments do not require trust by either party. RBI Committee (2013) decided to invite suggestions from various stakeholders with a view to enabling them to share their thoughts on the subject from organizations that are engaged in developing new models of financial services delivery, in rural as well as urban contexts and have subject matter expertise. R. Magesh Kumar &C. Samuel Joseph (2013), focused an overview of various business models and highlights the need and importance of these emerging profitable models which are in need to be adopted by all banks and financial institutions towards Financial Inclusion in India. K.Hema Divya (2013) focused on the objective of financial inclusion to deliver banking services at an affordable cost to vast sections of the low-income groups. Mireya Almazán and Elisa Sitbon (2014) overviewed a global smartphone adoption is set to ramp up massively in the coming years, particularly in developing markets. As more unbanked consumers gain access to smartphones and mobile internet services, new opportunities for mobile financial services models will arise. This GSMA Mobile Money for the Unbanked (MMU) White Paper discusses the factors at play and their significance to the evolution of mobile money. Shwetambara Sairam (2014) study reviews the various cost effective rural credit delivery models across the world which could be emulated by banks in India to transform their rural financing into a lucrative proposition for both the rural customers as well as for themselves. Using in-depth secondary research, recommendations are made on four fronts: Channels of credit delivery, Product, Operational efficiency and Scaling up to overhaul the prevailing rural financing model in India. Harmeet Kaur (2014) focuses on to understanding inclusive growth phenomenon its need and financial inclusion as an instrument to attain it. The research has been done using secondary data source. The study also presents the extent of inclusion among selected countries.

Financial Inclusion Initiatives

RBI has adopted a bank-led model for realizing financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. The RBI has following initiatives to reach the unbanked rural area.

Basic Saving Bank Deposit Account (BSBDA) allows banks to open accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card as advised by RBI in 2012.

Relaxed and simplified KYC norms: It is a process by which banks obtain information about the identity and address of the customers. This process helps to ensure that banks' services are not misused. The KYC procedure is to be completed by the banks while opening accounts and also periodically update the same.

Simplified Branch Authorization Policy stated by RBI is to assess the nature & scope of banking facilities provided by banks to common persons particularly in under banked areas for promoting financial inclusion.

Compulsory Requirement of Opening Branches in Unbanked Villages, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked rural centers.

Opening of intermediate brick and mortar structure: This model could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure with core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.

Financial Literacy Centers (FLCs) was aimed at to create awareness to individuals all over rural India to ensure all have equal opportunity at growth & development by means of financial literacy.

Effective Delivery Models
Several models have been tried, namely like opening of banking outlets, Business correspondent model, bank led model, basic savings basic deposits accounts, Kisan credit cards & general credit cards, self-help group-Bank Linkage for pursuing financial inclusion.

Opening of Banking Outlets
Banking outlets are banking centre or financial centre is a retail location where a bank, credit union, or other financial institution offers a wide array of face-to-face and automated services to its customers. So opening of banking outlets in unbanked areas help people of under banked to get financial aids.

Basic Savings Bank Deposit Account
It will include deposit and withdrawal of cash; receipt / credit of money through electronic payment channels or by means of deposit / collection of cheques at bank branches as well as ATMs and services will be free.

Business Correspondent Model
It is a strategy that has been advocated by the Reserve Bank of India (RBI) ensuring greater financial inclusion and increasing the outreach of the banking sector, especially in the rural areas. The model intends to use the services of Non-Governmental Organizations/ Self Help Groups (NGOs/ SHGs), Micro Finance Institutions (MFIs) and other Civil Society Organizations (CSOs) as intermediaries in providing financial and banking services for people in rural and areas outside of the Banks' coverage.

Bank Led Model
RBI has advocated a bank-led model for financial inclusion with thrust on leveraging technology. Many PSU and Private Banks have started using ICT for covering all sorts of people for their financial services partnering with Telecom companies. Mobile banking, online shopping, etc., and several other technology driven financial services gaining momentum with the help of bank led models.

Kisan Credit Cards
It was started by the Government of India, Reserve Bank of India (RBI), and National Bank for Agriculture and Rural Development (NABARD) in 1998-99 to help farmers access timely and adequate credit. Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion

General Credit Cards
To enable farmers to withdraw cash from ATMs anywhere in the country, banks need to convert KCCs/GCCs to electronic credit card. Further, banks may explore the possibility of issuing multipurpose cards which could function as debit cards, KCC and GCC as per the requirements in rural areas.

Development in Self Help Groups- Bank Linkage
The SHG - Bank Linkage Programme is a major plank of the strategy for delivering financial services to the poor in a sustainable manner. It helps in bringing more people under sustainable development in a cost effective manner within a short period of time. As on March 2011, there are around 7.46 million saving linked SHGs with aggregate savings of Rs.70.16 billion and 1.19 million credit linked SHGs with credit of Rs. 145.57 billion (Source: NABARD, Status of Microfinance in India).

Growth in Micro Finance Institutions
Though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing in micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs. At present, around 30 MFIs have been approved by RBI. Their asset size has progressively increased to reach Rs. 19,000 crore as at end Sept 2013.

RBI Journey in Financial Inclusion
Table given below clearly shows that growth of banks including regional rural banks.

Table -Financial Development of Banks

BANKING OUTLETS IN VILLAGES	2010	2013
Branches	33,378	40,837
Villages Covered by BCs*	34,174	2,21,341
Other modes	142	6,276
Total	67,674	2,68454
Urban locations through BCs	447	27,143
BASIC SAVINGS BANK DEPOSIT A/C –BRANCHES		
Number(million)	60.19	100.80
Amount(Rs crore)	4,433	16,469
BASIC SAVINGS BANK DEPOSIT A/C –BCs		
Number(million)	13.27	81.27
Amount(Rs crore)	1,069	1,822
NO OF KISAN CREDIT CARDS(million)	24.31	33.79
NO OF GENERAL PURPOSE CREDIT CARD(MILLION)	1.4	3.6
ICT Based Accounts-BCs		
Number of Transactions(million)	26.52	250.46
Amount of Transactions(million)	6.92	233.88

Source: Rbi Annual Report 2013

CONCLUSION
Though many delivery models are available for financial services to low income customers, mostly business correspondent model alone is highly preferred .Also this model is not profitable due to catering of services to low-income customers with low volume transactions. Banks should initiate suitable training and skill development programmes for effective functioning of Business correspondent model. The economic activity needs to be improved. Generally, urban financial inclusion leaves vast scope for improvement. Migration from rural to urban centres is also accentuating the problem. Due to lack of awareness, low financial education and procedural hassles, many still prefer to borrow money from informal sources like money lenders. Accordingly, 718 Financial literacy centers have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness, seminars and lectures during April 2012 to March 2013. This paper concludes that business correspondent model allows banks to provide door step delivery of services.

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