Research Paper MANAGEMENT

Mission Mode Objectives (6 Pillars) of Financial Inclusion – an Empirical Study with Special Reference to Canara Bank

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ABSTRACT

Financial inclusion, it must be reiterated, is not the end in itself; it is one of the means for enabling, especially the rural poor to improve their economic conditions. The manner in which some of the banks are announcing their achievements in broadening financial inclusion, measured usually by the increase in the number of no-frill accounts opened, gives an impression that they have already accomplished the challenging task. Enlisting the hitherto unreached people as bank customers is only the beginning. Their credit needs have to be sympathetically and realistically studied by the bankers at the grass root level. Saving habits have to be inculcated among them. They should be given proper awareness about not only savings and loan benefits, but also insurance and pension schemes, in Toto financial literacy and financial counseling. Banking schemes have to be suitably modified to match their requirements. This is a time consuming job and cannot be completed overnight. The urban-bred banker cannot easily understand or appreciate the inherent inadequacies of the rural society, their fears of uncertainties and inability to articulate their aspirations. In this back ground, in this empirical study, we have analysed mission mode objectives (6 pillars) of Financial Inclusion with special reference to Canara Bank.

KEYWORDS 1. FINANCIAL INCLUSION 2. FINANCIAL LITERACY 3. BUSINESS CORRESPONDENTS 4. MICRO INSURANCE 5. NATIONAL PENSION SCHEME

1. Introduction:

The United Nations defines the goals of Financial Inclusion as follows:

- access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- sound and safe institutions governed by clear regulation and industry performance standards;
- financial and institutional sustainability, to ensure continuity and certainty of investment; and
- Competition to ensure choice and affordability for clients.

Alliance for Financial Inclusion (AFI) Executive Director Mr. Alfred Hannig highlighted on 24th April 2013 progress in Financial Inclusion during the IMF-World Bank 2013 Spring Meetings: "Financial Inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership."

Opening remarks by Dr. Raghuram G. Rajan, Governor, Reserve Bank of India at the Financial Inclusion Conference, April 2, 2015: "Perhaps the country's most important financial challenge is to bring financial services to every doorstep and to every small enterprise. The poor are still too far away from, or too uncomfortable stepping into, bank branches. With government initiatives, as well as new technologies, new institutions, and new processes such as direct benefits transfers, I am confident that our country can empower the poor and the small with both choice and opportunities. The Reserve Bank in turn has to ensure greater consumer protection and consumer literacy."

The Prime Minister of India, Mr. Narendra Modi, while delivering keynote address at Reserve Bank of India at the Financial Inclusion Conference on 2nd April 2015, urged the Reserve Bank of India to take the lead in encouraging financial institutions to set concrete targets for Financial Inclusion the next 20 years, to help transform the quality of life of the poor.

OBJECTIVES OF THE STUDY:

- To through light on the efforts of the Government for Financial Inclusion.
- To highlight some of the implemented projects and schemes of Canara Bank with reference to Financial Inclusion

RESEARCH METHODOLOGY:

This research paper is based on secondary data for which various published reports from various journals, magazines, websites, articles and government & NGO reports have been reviewed.

Canara Bank in Financial Inclusion

Canara Bank, commonly known as a "Small Man's Bank", was founded by Mr. Ammembal Subbarao Pai, a great visionary and philanthropist, in July 1906 in a small port town in Karnataka. The founding principles and the philanthropy focused on people orientation and assisting the needy. The ethos and values given by the founder is "A good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people".

Canara Nayee Disha

Canara Nayee Disha – A Tool of Canara Bank for Holistic and Meaningful Inclusive Growth.

It is a Scheme designed by the Bank, targeting the less privileged Account holders to facilitate financial deepening through Group Formation among the No-Frill Account holders. Such Groups formed out of the No-Frill Account holders would be linked to Credit for ensuring better utilization, income generation, and overall economic improvement.

Nayee Disha Contains

- Inbuilt overdraft facility
- Kisan Credit Card
- General Credit Card Scheme
- Differential Rate of Interest
- Financing SHGs/Micro Credit Groups
- Financing JLGs of Tenant Farmers
- Debt Swapping Scheme for Farmers & Urban poor
- Various Government sponsored schemes
- Micro-Insurance
- Free remittance

Certain Uniqueness of the Approach Is

- Focus on Group Synergy – Coverage of atleast 50% of No Frill account holders through SHGs / Micro Credit groups; on economic freedom and sustainability of lives

- Under ICT enabled model, No frill account holders will be facilitated to access all banking services at the branches and through Business Correspondents
- Non-Financial support to back the financial initiatives through the rural employment Training Institutes
- Financial literacy at the door steps of the excluded, through expanding the Bank's pioneering initiative of "Canara Grameen Vikas Vahini Scheme", Banking goes to villages exhibitions, Adoption of Schools, Farmers' Clubs, etc.
- Dedicated delivery through Micro Finance branches and Financial Inclusion Cells at select branches
- Sensitizing staff through a specially designed training module on Financial Inclusion
- Bank has set up Financial Literacy and Credit Counseling Centers christened as "AMULYA" to impart / disseminate knowledge to the rural poor about the objectives of Financial Inclusion and various banking and financial services available to them especially at their door steps.
- The Bank has also registered a new Trust, "Canara Financial Advisory Trust" to manage these Financial Literacy and Credit Counseling Centers.

2. Financial Inclusion - Background

The efforts to include the financially excluded segments of the society in India are not new. The concept was first initiated by the Reserve Bank of India (RBI) in 2005. In the year 2011, the Government of India gave a serious push to the programme by undertaking the "Swabhimaan" campaign to cover more than 73,000 villages, with population more than 2,000 (as per 2001 census), with banking facilities.

Financial Inclusion incorporates ensuring access to financial services and timely & adequate credit to the excluded sections i.e. weaker sections & low income groups.

Exclusion of large segments of the society from financial services affects the overall economic growth of a country. It is for this reason that Financial Inclusion is a global concern.

- In Sweden and France, banks are legally bound to open an account for anybody who approaches them.
- In Canada, law requires Banks to provide accounts without minimum balance to all Canadians regardless of employment / credit history.
- In the United States, the Community Reinvestment Act (1977) is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

Even after decades of bank nationalization, whose rationale was to shift the focus from class banking to mass banking, we still find usurious money lenders in rural areas continuing to exploit the poor. After economic reforms of 1991, the country can ill-afford not to include the poor in the growth paradigm. Financial Inclusion of the poor will help in bringing them to the mainstream of growth and would also provide the Financial Institutions an opportunity to be partners in inclusive growth.

3. Financial Inclusion Roadmap for providing banking outlets in unbanked villages

The Reserve Bank continued efforts to create a conducive and enabling environment for access to financial services to extend door step banking facilities in all the unbanked villages in a phase-wise manner.

During Phase I, 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 have been identified and allotted to banks for coverage in a time bound manner by March 31, 2016. As per the progress reports received from SLBCs, banks had opened banking outlets in 183,993 unbanked villages by March 2014, comprising 7,761 branches, 163,187 BCs and 13,045 through other modes.

3.1. Financial Inclusion plan and its performance evaluation

The Reserve Bank has encouraged banks to adopt a structured and planned approach to financial inclusion (FI) with commitment at the highest levels through preparation of board approved FIPs.

The first phase of FIPs was implemented over 2010-13. With the completion of the first phase, a large banking network has been created and a large number of bank accounts have also been opened.

The focus under the new plan is now more on the volume of transactions in the large number of accounts opened. A brief of the performance of banks under FIP up to March 31, 2014 is:

i) The number of banking outlets has gone up to nearly 3, 84,000. Out of these, 1, 15,350 banking outlets were opened during 2013-14.
ii) Nearly 5,300 rural branches were opened during the last one year. Out of these, nearly 4,600 branches were opened in unbanked rural centers
iii) Nearly 33,500 BC outlets were opened in urban locations during the year taking the total number of BC outlets in urban locations to 60,730 as at the end of March 2014.
iv) More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million.
v) With the addition of 6.2 million small farm sector credits during 2013-14, there are 40 million such accounts as on March 31, 2014.
vi) With the addition of 3.8 million small non-farm sector credits during 2013-14, there are 7.4 million such accounts as on March 31, 2014.
vii) Nearly 328 million transactions were carried out in BC-ICT accounts during the last year as compared to 250 million transactions during 2012-13.

3.2 According to World Bank Findex Survey (2012) (http://wwwwds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2012/04/1 9/000158349_20120419083611/Rendered/PDF/WPS6025.pdf) , only 35% of Indian adults had access to a formal bank account and 8 % borrowed from a formal financial institution in last 12 months.. The miniscule number suggests an urgent need to further push the Financial Inclusion agenda to ensure that people at the bottom of the pyramid join the mainstream of the formal financial system.

4. Mission Mode Objectives (6 Pillars):

The present proposal of Financial inclusion, the Mission Mode envisages provision of affordable financial services to all citizens within a reasonable distance. It comprises of the following six pillars:-

4.1 Universal access to banking facilities: - The first and basic pillar of Financial Inclusion is the expansion of banking network of the country to reach out to the financially excluded segments of the population. Mapping of each district into Sub Service Area (SSA) catering to 1000-5000 households in a manner that every habitation has access to banking services within 5 km by March, 2016.

4.2 Financial Literacy Programme: - The second important pillar focuses on preparing the people for financial planning and availing credit. People need to be made aware of the advantages of access to formal financial system, savings, credit, importance of timely repayments and building up a good credit history. To be extended to the block level from district

level at present by March, 2016.

4.3 Providing Basic Banking Accounts: - The third pillar of Financial Inclusion envisages providing basic bank accounts to all citizens. The Financial Inclusion campaign in the past has targeted opening of basic savings accounts. As per RBI estimates, by March 2013, 182 million basic savings accounts were opened till March, 2013 (http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862).

However, there could be individuals with multiple bank accounts as well as non operative accounts. This anomaly is proposed to be removed by its six pillar approach. To all families and to all beneficiaries of Government schemes by March 2016 and then on an ongoing basis.

4.4 Micro Credit availability & Creation of Credit Guarantee Fund for coverage of defaults in such accounts: - The fourth pillar of Financial Inclusion is the Credit Guarantee Fund. As per RBI estimates, up to March 2013, 3.95 million Basic banking accounts availed Over draft facility of Rs.1.55 billion. Hence to begin with, it is proposed to start with a corpus of Rs.1000 crore. This corpus would be budget neutral for the Government of India and would be funded by the Financial Inclusion Fund (FIF) being maintained by NABARD. Facility of an overdraft of Rs.5000/- through debit card to every basic banking account holder on completion of financial literacy training by March, 2016.

4.5 Micro Insurance: - The fifth pillar of Financial Inclusion is to provide micro-insurance to the people. Insurance Regulatory and Development Authority (IRDA) has created a special category of insurance policies called micro-insurance policies to promote insurance coverage among economically vulnerable sections of society. A micro-insurance policy can be a general or life insurance policy with a sum assured of Rs.50, 000 or less. By March, 2017 and then on an ongoing basis.

4.6 Unorganized sector Pension schemes like Swavlamban: - The sixth and final pillar of Financial Inclusion relates to old age income security. To encourage workers in the unorganised sector to save voluntarily for their old age, an initiative called "Swavalamban Scheme", a co-contributory pension scheme was launched on 26.09.2010, wherein the Central Government would contribute a sum of Rs.1000 per annum in each National Pension Scheme (NPS) account opened and having a saving of Rs.1, 000 to Rs.12, 000 per annum for a period not exceeding five years. A Total of 3, 01,980 subscribers during 2010-11, 6, 43,979 subscribers during 2011-12 and 11, 01,079 subscribers during 2012-13 have been enrolled. During the financial year 2014-15, a total of 15, 94,790 subscribers have been enrolled till 31st March, 2014.

By March 2017 and then on an ongoing basis.

5. Strategy for achievement of Objectives :

In order to achieve the above objectives, a broad collaborative strategy with all stake holders is proposed. It is proposed to encourage Public-Private partnerships. Moreover the existing national infrastructure of post offices and the proposed setting up of payment banks would be optimally utilized to deliver the results. The strategy is to take forward the Business Correspondent model for expansion of banking services by modifying it to ensure both operational flexibility and viability of the Business Correspondents (BCs).

6. Conclusion

The entire Financial Inclusion Programme is based upon some premises:

- the past experience shows that the poor are bankable and credit to the poor rates as better quality of assets;
- access to formal banking services should be considered as a right rather than a privilege;
- for a well functioning financial system, vast segments of the society cannot be left out of the ambit;
- Use of ICT can make banking more accessible in a cost effective manner.

While there is little doubt about the premises, what is important is achieving the larger objective financial inclusion should lead to financial security for the poor and the vulnerable. That is, at some stage, the focus is bound to shift to the quality and not the quantity of inclusion.

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