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Financial Inclusion Models in the selected Nations: The Lessons for India

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Abstract:
Financial services play an important role in economical development of any Nation. Banking is one of the leading financial service through which government can make flow of money in the economy and market of a country. Due to several reasons banking services are not prospecting the people to engage their participation in banking, so many people are not transacting their transactions through banks. Financial Inclusion is the way through which all kind of people can include into financial services. Financial Inclusion meant for delivery of financial services to weaker section of the society at affordable cost. In this paper, the researcher attempts to understand the financial inclusion and its role in overall development of society and economy of a Nation. The study focuses on various models following around the World to achieving the inclusive growth. The relevant data for this study has been collected with the help of from various Research journals, Articles, reports of RBI, reports of NABARD and online resources.

Introduction:

Financial inclusion refers to the making available of financial services to the weaker sections i.e. economically backward people, rural area and women who are not able to access basic bank facilities. Financial inclusion connects the people with financial services at affordable cost. Dr. K.C. Chakrabarty, former Deputy Governor, Reserve Bank of India, defines Financial Inclusion as "the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players".

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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan).

Review of various Financial Inclusion Models following in the selected Nations:

SOUTH AFRICA

No-Frills Banking: Opening basic bank accounts with negligible minimum deposit and a set number of free transactions.

The Context: South Africa's banking market is one of the most expensive and the poor people can't afford it. The central bank instructed a collective of five banks to launch a 'no-frill' bank account scheme. Then in 2004 the five banks launched the 'no-frill' bank account, called the Mzansi account which has no monthly fees and five transactions are free in a month.

The Experience: According to a 2009 report by the non-profit FinMark Trust, there are 6 million Mzansi accounts in a country of 32 million. Some sections of the informal economy, such as employers paying salaries in cash, have come into the banking system thanks to Mzansi. But only 3.5 million out of the 6 million accounts are active that is usage rate of only 58 percent. "Such accounts have been largely marketed as a pure savings product but what drives usage is transaction — transfer of money, payment of bills etc.," says Ignacio Mas, deputy director, financial services for the poor discipline at the Bill & Melinda Gates Foundation.

The banks have kept further transactions quite expensive. "Once you exhaust the first five transactions which are free, the Mzansi is one of the most expensive accounts in the world," says Jennifer Isern, South Asia head of the access to finance division of IFC.

BRAZIL

Branchless Banking: Banking service spread access through agents called banking correspondents (BCs). **The Context:** Even though BCs had existed in Brazil since the 1970s, the real boost came a little more than a decade ago when the regulation broadened the range of services that can be offered by BCs and eased several other restrictions. The new laws came in the context of very low penetration of banking services in that country. In 1997, as many as 40 million Brazilians out of the total 62 million did not have access to any financial services.

The Experience: Over the last decade, the model has grown rapidly. Brazil's 150,000 BCs account for about 62 percent of the total number of points of service in the financial system. It is the world's largest such network. Meanwhile, the total number of bank accounts in Brazil has doubled between 2000 and 2008, from 63.7 million to 125.7 million.

KENYA **Bank Without a Bank:** Do away with the need to have a bank account. Use the mobile phone company as a conduit for keeping and transacting money.

The Context: In Kenya, for every bank account, there are two mobile phone connections. And mobile phone use is growing faster than bank account penetration. So, Kenyan authorities ushered in a system where a mobile phone company could act as the repository of customers' money and allow them to transact. However, it can't use that money and the customers don't get any interest. Safaricom-Vodafone launched M-PESA in 2007 creating this parallel banking ecosystem. The transactions, capped at $500, happen in real time through a wide network of around 17,000 "agents."

The Experience: M-PESA has grown rapidly to have an estimated client base of around 10 million, roughly 40 percent of Kenya's adult population. In fact, when the controversial Kenyan Presidential elections of 2007-08 led to widespread protests and the shutdown of formal banking channels, it was M-PESA that most of the country turned to. Since May 2010, Safaricom has ventured into providing deposit facility too by tying up with Equity Bank. The "M-KESHO" savings account, as it is called, too can be accessed from a customer's mobile phone.

Mexico **A Super Efficient Lending Mission:** Focus on micro credit and allied products. Build enormous scale with supreme efficiency and the power of private capital.

The Context: It was Banco Compartamos—which had begun as a non-profit organization—that showed that microfinance is a business of scale and that private capital can help achieve that scale. It believes an MFI can succeed only by being extremely profitable for its shareholders. Today, a large number of MFIs, especially in India, are embracing the model.

The Experience: With 1.5 million clients, Compartamos is the largest MFI in Latin America. The company's interest rates are above 100 percent a year, much worse than the 30 percent levels seen in India. So, its $400-million IPO in 2007 proved controversial. However, nobody disputes Compartamos is where it is today due to the combination of efficiency, innovation and a tight leash on costs. "It is an organization which has been very efficient at training and managing a very de-centralized base of loan officers. It is fundamentally an HR machine," says Mas. **Philippines:**

Four million unbanked Filipinos are seen to benefit from the nascent credit scoring industry, a development that is seen to provide those at the bottom of the economy an easy access to credit once the service is available to the public. Marlo R. Cruz, President and Chief Executive Officer of CIBI Information, Inc. (CIBI) as one of the accredited credit bureaus in the Philippines, highlighted that this is expected to unlock much economic potential in sectors of the economy that are crucial for inclusive growth.

As per Cruz, "Many people still do not realize that the value of having a credit opportunity is synonymous to generating financial power. Creditworthiness is the same as to owning a keycard that can be used in navigating to the society of better possibilities."

The Bangko Sentral ng Pilipinas (BSP) reports on Financial Inclusion Initiatives and Financial Inclusion in the Philippines summarizes the country's accomplishments and significant milestones in financial inclusion. These reports show that 4 out of 10 Filipinos saved money in 2015 (up from 2 out of 10 in 2009). Among Filipino adults, 24.5% never saved and only 31.3% (up from 26.6%) have an account at a formal financial institution. The lack of enough money was cited as the main reason for not having a bank account.

While there has been significant progress, there is still much to be done.

As an emerging country with a sizeable number of people living in poverty, access to financial services remains an important challenge. Based on a March 18, 2016 report from the Philippine Statistics Authority, the country's 2015 poverty incidence (the proportion of people below the poverty line versus the total population) is at 26.3% while the subsistence incidence (the proportion of Filipinos in extreme or subsistence poverty) is at 12.1%. This means that there are around 26 million Filipinos who are still living below the poverty line.

India

Y.Venugopal Reddy, the then Governor, Reserve Bank of India was used for the first time the term 'financial inclusion' in April 2005 in the Indian context in the Annual Policy Statement. Later on, the concept 'financial inclusion' gained ground and came to be widely used in India and abroad. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion The Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance (Khan Committee) in July 2005 drew strength from this announcement by Governor Y. Venugopal Reddy in the Annual Policy Statement for 2005-06 wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system. In the Khan Committee Report, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. The recommendations of the Khan Committee were incorporated into the mid-term review of the policy (2005–06). Financial inclusion again featured later in 2005 when it was used by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam, Puducherry became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

In India, RBI has initiated several measures to achieve greater financial inclusion as follows:

- Opening of no-frills accounts
- Relaxation on know-your-customer (KYC) norms
- Engaging business correspondents (BCs)
- Use of technology
- Simplified branch authorization
- Opening of branches in unbanked rural centers

Pradhan Mantri Jan Dhan Yojana

Indian Prime Minister Narendra Modi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014 with a target to provide 'universal access to banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card & in next phase, micro insurance & pension etc. will also be added.[1] In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts. In this email he categorically declared that a bank account for each household was a "national priority".

On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.

Conclusion: Like South Africa's 'No-Frill' bank account plan, India had also started no-frill account plan and even more dismal record with its no-frill account plan. It did manage to get 25 million people to sign up for such accounts from various banks, but today only 2.77 million of them, or a mere 11 percent, are active. The scheme will begin to work better when more friendly avenues of banking such as kiosks and mobile phones reach a large number of people. Also, the country should encourage a transaction-led model.

India had tried out pygmy deposit agents in the 1970s but the experience was not good. These agents went about claiming to be bank employees and that led to a lot of disputes and litigation. In fact, RBI Deputy Governor Usha Thorat says Brazil, too, has the same problem. Now that India is ushering in a BC system, the lessons from Brazil are important. The one reason why the system worked there is that the authorities established a strong business case for BCs. For example, the payment of bills of any kind is required to be done through the banking system using a standard form called Boletos. Bill payments comprise 75 percent of volume (1.6 billion) and 70 percent of value ($105 billion) transacted through Brazilian correspondents in 2008. But in India, there is a very large informal system for transactions that authorities have failed to bring into the banking system so far. "The question is: Are the big banks and the regulation in India only doing this as a CSR activity or are they trying to develop viable business line? Because unlike Brazil, India has not yet demonstrated a business case for the banks or even the agents," says Greg Chen of CGAP.

In India, the RBI doesn't allow mobile phone companies to operate as banking channels like Kenya. In fact, Safaricom's virtual monopoly in the business in Kenya makes many independent observers nervous. "Limiting the number of players who are trying to provide financial inclusion seems a bit counter-productive. For a transformative change, we need as much competition as possible," says Mas. But there is no reason why India should not allow an M-PESA-like model with plenty of competition. "It will happen if you let some of the creative and entrepreneurial powers in the country to experiment a little bit," says Chen.

The Mexico's profit-led model is here to stay. However, Compartamos' success with investors has to do a lot with its 100 percent-plus interest rate. The company charges such rates because loan sharks there charge even more and there is little competition. In India, there are over 1,000 MFIs. Such pricing power will neither be available in India nor tolerated. The long-term success of MFIs rests on being seen as socially helpful. They can't afford to antagonise the various stakeholders.

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