Research Project Report

On

Financial Inclusions in India

Submitted in

Partial fulfillment of BBA

Under the guidance

of

School of Business

Galgotias University

Gautam Buddha Nagar- 201 312

A **PPENDIX 1**

TITLE OF THE PROJECT

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Submitted by

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IN

FINANCE

SCHOOL OF BUSINESS

Under the Supervision of

RAMARCHA KUMAR

GALGOTIAS UNIVERSITY

(Established under Galgotias University Uttar Pradesh Act No. 14 of 2011)

MAY, 2022

APPENDIX 2

(A typical specimen of Bonafide Certificate)

GALGOTIAS UNIVERSITY

SCHOOL OF BUSINESS

BONAFIDE CERTIFICATE

Certified that this project report **"FINANCIAL INCLUSION OF INDIA"** is the bonafide work of "**MANSI JHINDAL, MANSI SONI, MANPREET NAGAR"** who carried out the project work under my supervision.

SIGNATURE **SIGNATURE**

Dean of School **SUPERVISOR**

Certificate from the Supervisor

This is to certify that the project titled ***'Financial Inclusions in India'*** has been done under my supervision by Mansi Jhindal, Mansi Soni and Manpreet Nagar of BBA VI semester.

Name and Signature of the guide

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Contents

List of Tables

List of Charts

CHAPTER I

INTRODUCTION, OBJECTIVES AND SCOPE OF THE STUDY

1.1 Introduction

Investment policies have received worldwide attention including improved financial markets. Even in the advanced financial markets there are concerns about those who are excluded from the financial/formal banking system. In India, investment has been the national priority agenda of the Government of India for the past decade, especially since the efforts of program 11, to promote inclusive growth in the country. Efforts are being made by authorities and policy-making institutions such as the RBI, NABARD, the Insurance Regulatory and Development Authority (IRDA), the Pension Fund Regulatory and Development Authority (PFRDA) in accordance with appropriate investment regulations and guidelines. But public debate and unconventional evidence seem to cast doubt on the effects and implications of such inclusive policies. As for now, current researcher limits its scope when given a six-month period to look at the theme of “Investment: Why It Does Not Happen”. The theme is translated into a broad and intriguing question, "Did the investment take place in India?". To answer this question the research followed the objectives originally set for specific reviews as proposed by the Research Advisory Committee of Macro research awards of IIBF.

1.2. Objectives

Accordingly the following objectives are formulated.

a) To conduct a critical review of the policies aimed at financial inclusion, study conflicts and overlaps in the policies and the instruments used to implement such policies.

b) To empirically assess the state of financial inclusion by constructing financial inclusion indices for thirty Indian states using data on self help group bank linkage programme and micro finance institutions.

c) To examine the supply side constraints in achieving the goal of financial inclusion.

1.3. Data and Method

The survey was conducted mainly based on secondary data available from various national sources (RBI, NABARD, various committee reports, Department of Finance and MOSPI) and international standards (World Bank, DFID). Appropriate data for various input parameters are collected in the Handbook of Statistics on Indian Economy, 2013, annual reports of the National Bank for Agriculture and Rural Development, (NABARD) Microfinance sector status reports, and Bharat Microfinance reports rapid data 2012. Annual regional data set of India in the SHG Bank Linkage system and microfinance institutions are used to develop an Investment Index (FIIND) following Sarma. Data on the number of SHGs with savings accounts, the number of SHGs with loans, SHG savings, SHG loans, the number of MFIs and the remaining MFI loans are used for the available years ie 2007-08 to 2009 -10, and 2011-12.

1.4. Organization of the Report

The report has been divided into four chapters. In Chapter II, a critical review of government policy plans, as well as other top bodies and regulators alike: RBI, NABARD, PFRDA and IRDA were introduced. In Chapter III, the Investment Index (FIIND) is based on the second available data for the period 2007-08 to 2011-12. To
addressing the supply side issues, in Chapter IV, I review the supply side parameters based on the SHG-Bank linkage system and the non-performing banking assets (NPA) of banks from the SHG portfolio. In this chapter, the results of two case studies related to cell phone-based withdrawals and individual preferences on informal borrowing sources are also presented to understand the side issues of the offer regarding investment.

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CHAPTER II
FINANCIAL INCLUSION IN INDIA:
A CRITICAL REVIEW OF POLICY INITIATIVES & OUTCOMES

2.1 Introduction

In this chapter an attempt is made to review the spectrum of policy initiatives aimed at financial inclusion and their outcomes. The review covers: (i) conceptual framework of financial inclusion, (ii) extent of financial inclusion in India and a comparison with the global scenario, (iii) approaches to financial inclusion - some international/national initiatives, (iv) initiatives taken by Government and other regulators for inclusion, and (v) outcomes on the process of inclusion.

2.2 Importance of Financial Inclusion

Poverty and discrimination continue to be as strong in the socio-economic dialogue in India as they have been in the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the beginning of planning in India. Various anti-poverty programs, job creation and basic services programs have been operating in India for many years. Ongoing reforms also place great importance on eradicating poverty and addressing the wider diversity of all provinces and the diversity of rural and urban areas. Although the Indian economy has recorded a staggering 8.0% (average) growth over the past decade but sadly its impact has not been fully matched with very low deciles. Despite being one of the ten fastest growing economies in the world, India is still home to one third of the world's poor. Therefore, in this context, Investment can benefit society and the economy.

Investment has the potential to create positive externalities: it leads to increased savings, investment and, consequently, stimulates economic growth processes. It also provides a platform to focus on the practice of saving money, especially in the middle of the low-income sector living under chronic financial stress, especially due to lack of savings, which puts them at risk. Increased household savings, increased agricultural productivity through legal debt and improved living standards, which will boost economic growth across the country. This legitimate financial network can expose their creative potential without increasing domestic demand in a sustainable manner driven by revenue and growing consumer spending from such sectors.

These efforts have a repetitive effect on the economy as a whole with high savings integrated from a large portion of the pyramid scheme (BoP) by providing access to a formal savings plan that leads to increased debt and bank investment. In-depth discussions of the BoP / under the banking system in the economy through a formal financial system can lead to improved financial conditions and living standards, enabling them to create financial assets, generate income and build resilience to financial risk protection to meet. major economic shocks and livelihoods. The government also benefits greatly from the effective transfer and rewarding of a large number of social benefits to targeted, disadvantaged people.

As we all know, Investment is now seen as a solution to the gaps and leaks in the distribution of government benefits and grants through the transfer of direct interest (DBT) to beneficiary bank accounts instead of sponsoring products and making cash payments. So, overall, Investment has the potential to bring in non-subscribers

many people in the formal banking system, plan their savings, strengthen their business interests by making credit available and thus filling the economy.

2.3 Conceptual Framework of Financial Inclusion

In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. However, in emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency. In the following paragraphs we will see the difference and missing elements in different financial inclusion definitions defined by various regulators and global institutions.

Before going in to the depth and breadth of financial inclusion, there is a need to review the definitions to measure financial inclusion in India and abroad. Fee important definitions given by the RBI and certain celebrated committees are presented below.

i) C. Rangarajan Committee: Financial inclusion may be defined as the process of ensuringaccess 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

ii) RBI's definition: Financial Inclusion is the process of ensuring access to appropriatefinancial 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 mainstream institutional players.

iii) Raghuram Rajan Committee: Financial inclusion, broadly defined, refers to universalaccess 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.

iv) **CGAP**: Financial Inclusion may be defined as the process of ensuring access to financialservices and adequate credit when needed by vulnerable group such as weaker section and low income group at an affordable cost

2.4 Financial inclusion - International Experiences

The importance of an inclusive financial system is widely seen in policy circles, not only in India, but has become the first policy in many countries. Several countries around the world now consider investing as a means of broad-based growth, with each citizen being able to use his or her money as a financial aid that he or she can use to improve his or her future financial situation, adding to this. national progress.

In developed markets, most of the time it is a problem alongside demand. Investment measures come from financial regulators, governments and the banking industry. The banking sector has played a key role in promoting investment. Legal action has been instituted in some countries. For example, in the United States, the Public Reimbursement Act (1997) requires banks to provide credit throughout their operations and prohibits them from directing only to a wealthy area. In France, the issuance law (1998) emphasizes the right of a person to have a bank account. The German Bankers 'Association introduced the voluntary code in 1996 which provides for a current" for everyone "bank account that conducts basic banking activities. In South Africa, a low-cost bank account called "Mzansi" was introduced by individuals who were not funded in 2004 by the South African Banking Association. In the United Kingdom, the "Investment Fund" was formed by the government in 2005 to fund investment development. The "Principles of Innovation" serve as a guide for policies and procedures aimed at promoting the safe and sound adoption of smart, efficient, affordable and cost-effective delivery models, assisting in providing fair competition and compensation framework for various banks, insurance, non-financial and non-bank lenders and non-bankers. affordable and high quality. The level of investment in India is found to be high compared to that of many developed countries and some of the major emerging economies. The high level of disbursement in India is reflected in the number of people in each bank branch and the low number of people accessing basic financial services such as savings accounts, debt services,

credit and debit cards.

Country	Number of Branches	Number of ATMs	Bank credit	Bank deposits
	(per 0.1 million adults)		(as per cent of GDP)	
India	10.64	8.90	51.75	68.43
Austria	29.61	166.92	128.75	107.10
Brazil	46.15	119.63	40.28	53.26
France	41.58	109.8	42.85	34.77
Mexico	14.86	45.77	18.81	22.65
United States	35.43	…	46.83	57.78
Korea	18.80	…	90.65	80.82
Philippines	8.07	17.70	21.39	41.93
Afghanistan	2.25	0.5	11.95	21.4

Source: World Bank, Financial Access Survey

These statistics, staggering as they are, do not convey the true extent of financial exclusion. Even where bank accounts are claimed to have been opened, verification has shown that these accounts are dormant. Few conduct any banking transactions and even fewer receive any credit. Millions of people across the country are thereby denied the opportunity to harness their earning capacity and entrepreneurial talent, and are subjected to marginalization and poverty.

2.5 Extent of Financial Exclusion in India

. In India, we don't have any single measure of inclusion as of today. However, a number of committees, some institutions and some individual researchers have estimated the inclusion level in different ways including some indices. Though, the recommendations of these committees are not unified but they throw some light on financial inclusion in India. In the following, we will broadly summarize some of the findings such as:

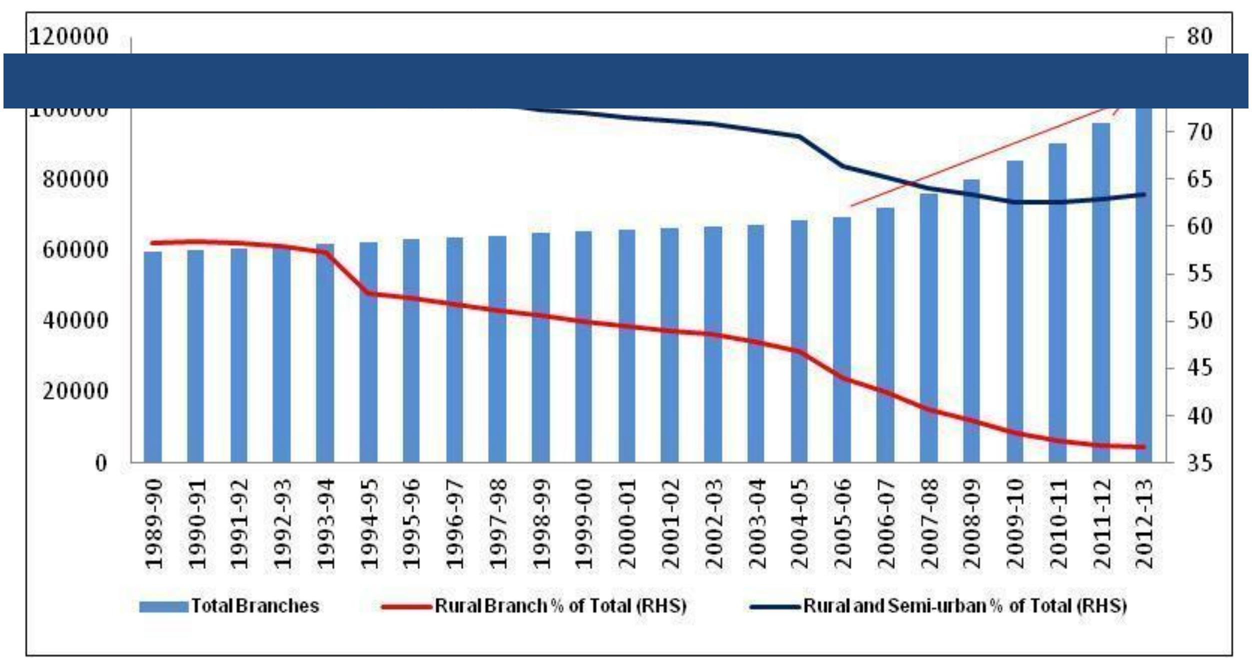
The ***Rangarajan Committee (2008)*** had estimated that around 41% of the population in the country are unbanked, 61% in rural areas and 40% in urban areas. Out of the 6 lakh villages in the country, only about 10% have a commercial bank branch. The proportion of people having any kind of life insurance cover was is as low as 10% and proportion having non-life insurance is an abysmally low 0.6%. People having debit cards comprise only 13% and those having credit cards only 2%.

According to the ***financial inclusion survey (2003),*** there are a large number of households (145 million) excluded from banking system and around 50% of the population do not have bank account. Only 34% of the population are engaged in formal banking. Out of the 6 lakh villages only, 30,000 villages have commercial bank branch. Insurance penetration is also at a low level as 10% have life insurance cover and just 9.6% have any non-life insurance.

The recent census of India (2011) stated that financial inclusion in a country like ours with large population and geographical spread is, indeed, challenging. The data released indicates that only 58.7% of households in India avail of banking services with the figure being 54.4% for rural areas and 67.8% for urban areas.

The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies. The wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population having access to basic financial services like savings accounts, credit facilities, credit and debit cards. In the following table, the widely quoted indicators of financial inclusion are presented to see the time-series progress of inclusion in the country over time.

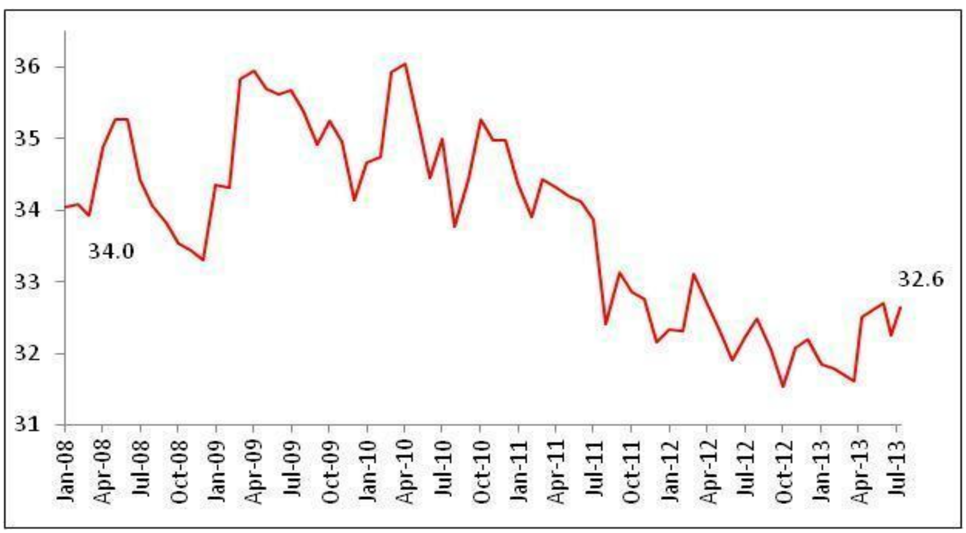
In the last ten years, due to different financial inclusion drive by banks and opening of branches in large number of unbanked places, the population per bank branch improved from 14,000 in 2009-10 to 12,000 in 2012-13, while population per ATM from 19,700 to 11,003 during the same period, showing significant improvement in access to banking services. However, banking has still not reached a large section of the population despite a strong and wide branch network of 1,00,000 plus bank branches spread across the length and breadth of the country



2.5.1 Priority Sector Lending

The priority sector comprises a vast section of the population in sectors such as agriculture, micro and small enterprises (MSEs), education and housing. RBI has mandated a target for priority sector advances at 40% of the Adjusted Net Bank Credit (ANBC) or credit equivalent of off-balance sheet exposure (OBE), whichever is higher. But, if you will go by figure, banks are not able to achieve the set target over the years. There are a number of reasons, may be due to higher risk of deteriorating asset quality, higher cost of deploying funds.

As on March 31, 2013 domestic banks (both public and private) were below the target of priority sector lending. During this period, 16 of the 26 public sector banks, 10 of the 20 private sector banks and 2 of the 41 foreign banks could not achieve the target of overall priority sector lending.



Source: RBI Data Base

2.6 Importance of Financial literacy and Financial Education

There are many reasons for exclusion. In remote, hilly and sparsely populated areas with poor infrastructure, physical access hinders installation efforts. From the point of view, need awareness, income / low income, social exclusion, and illiteracy are particularly obstacles. In between

side effects provide distance from branch, branch times, complex documents and procedures, inappropriate products, language, employee attitudes are common reasons for dismissal. Everything

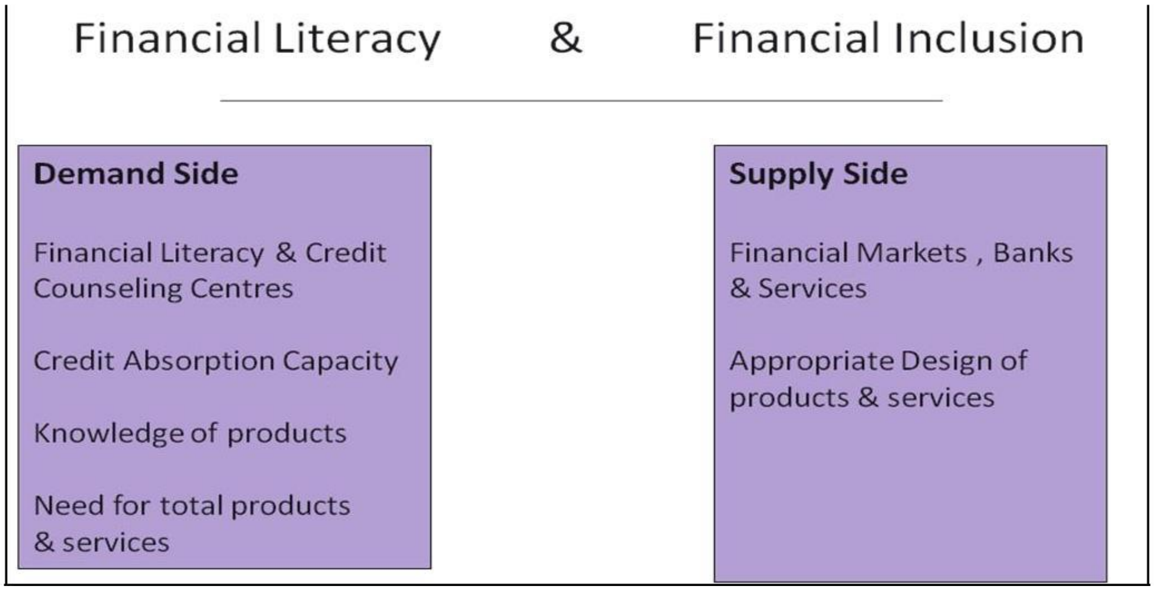
this results in higher operating costs without process problems. On the other hand, freedom the discovery of illegal credit sources expels people from legal entities. I

The requirements for independent proof of identity and address can be very important barrier to having a bank account especially for immigrants and slum dwellers.

Problem of Access to Formal Institutions

- Distance continues to be a major issue, though BCs have started to provide succor in certain regions.
- Navigating the Procedures remains a challenge;
- Lack of knowledge (institutional as well as user level);
- Insufficient infrastructure leading to long hours of waiting, if banks are accessible;
- Lack of customized products and services. In contrast informal and quasi-legal entities win on this count.
- Human resources of formal financial institutions unequipped to deal with challenges of FI.

There are may be a number of solutions to this problem but literacy and awareness is vital one among the all. Financial Inclusion and Financial Literacy are twin pillars: i) Financial Literacy stimulates more of the demand side , making people aware of what they can demand and ii) financial Inclusion acts more from supply side providing the required financial market/services



The OECD defines Financial Literacy as a combination of the financial awareness, knowledge, skills, attitudes and behaviors needed to make sound financial decisions and ultimately achieve individual financial well-being. Financial literacy can be achieved through the process of financial education. Financial education is defined by the OECD as “the process by which consumers / investors develop their understanding of financial products, concepts and risks and, through knowledge, guidance and / or targeted advice, develop skills and confidence to become more aware of financial risks. and opportunities, to make informed decisions, to know where to go for help, and to take other practical steps to improve their financial well-being ”.

The Reserve Bank of India defines financial literacy or financial education as “providing knowledge and understanding of financial market products, especially rewards and risks, to make informed choices. In this context, financial education is primarily about personal finance so that people can take effective action to improve their overall well-being and avoid financial stress ”. To increase literacy and awareness, the RBI and the Government have taken a few steps and the results may be visible over time. Some of the programs are as follows:

 The RBI has developed a project called ‘Project Financial Literacy’ with the intention of

disseminate information about central banking and general banking concepts

various target groups including school and college children, women, the rural and urban poor, the defense and the elderly.

 A multilingual website in 13 Indian languages on all banking issues at once

the average person introduced by the RBI. Picture books have been prepared for i

different target groups are also widely distributed in regional languages.

 Financial literacy programs are being presented in each Province with active involvement

State Government and State Bank Staff Committees. These programs

including theater, street games, exhibitions, workshops, conferences, and radio and television broadcasts.

 Financial education emphasizes capacity building measures so that small and medium borrowers can utilize all financial products and services namely, savings, remittances, insurance and pensions from the banking sector, in addition to debt. In recognition of the effectiveness of these institutions, banks have been asked to establish Financial Literacy and Credit Counseling Centers (FLCCs) in all regions. To date, more than 658 FLCCs have been established in various parts of the country.

2.7 Process of Financial Inclusion in India

The origins of the current investment can be traced back to the United Nations, which sets out the general goals of inclusive financial services such as access to a variety of financial services including savings, debt, insurance, remittance and other banking / payment services to all 'banks' and businesses at reasonable cost. The report of the Center for Global Development (CGD) Task Force on Access to Financial Services (October, 2009) set out broad policy objectives to increase financial access, including institutional procedures, with particular emphasis on the need to ensure data collection, monitoring and evaluation. The G20 Toronto Summit (June, 2010) defined the "New Investment Principles", which serve as a guide to policy and regulatory approaches aimed at promoting safe and sound adoption of smart, efficient, affordable, cost-effective delivery models. provides for fair competition conditions and a framework for compensation of various banks, insurers, and non-bank actors who participate in the delivery of a comprehensive range of affordable and high quality financial services.

Efforts are being made by authorities and policy-making institutions such as the Government of India, the RBI, IRDA (micro-insurance), PFRDA (small pensions), to develop policies and guidelines to strengthen investment but these will still have a significant impact on achieving a non-existent society. Balancing insurance, cash flows and pension contributions as part of investments remains a matter to be tried and resolved. It seems
while some effort has been put forth to develop an auxiliary regulatory framework, it has not yet reached far enough to overcome the effects of high costs of accessing large numbers of people, often in dispersed areas, with low-cost accounts. As a result, the institutions responsible for providing financial services have not yet seen the investment business as truly stable.

2.8 Financial Inclusion: National Initiatives

The history of investment in India is actually much older than the official acceptance of the purpose as stated above. The RBI and governments play a key role in encouraging investment to grow the economy to increase banking inflows into the country. Prior to the 1990's a number of efforts were made including the establishment of the State Bank of India in 1955; the commercialization of commercial banks in 1969 and 1980. Starting a Lead Bank Scheme in 1970 was a major step towards increasing investment. Among other measures, one obtains industry-leading borrowing principles, branch licensing procedures focused on rural branches and urban branches. The National Bank for Agriculture and Rural Development (NABARD) was established in 1982 primarily to re-finance agricultural lending banks. The establishment of RRBs in 1975 was also one of the major steps in promoting branch expansion in rural areas.

The establishment of Rural Regional Banks (RRBs), the Service Area Approach and the formation of Self-Help Groups - all of these were major efforts by the Government of India aimed at delivering banking services to more people. The link between economic growth, financial depth

and investment has been well-recognized in India's development agenda, especially since the reforms of the early 1990's, when financial and economic transformation processes began.

2.8.1 RBI's Policy Initiatives to foster Financial Inclusion

In India, RBI has initiated several measures to achieve greater financial inclusions, such as facilitating no-frills accounts and General Credit Cards (GCC) for small deposits and credit. Some of the supporting policy initiatives are:

I) REACH

a) **Branch Expansion in Rural Areas:** Branch authorization has been relaxed to the extent thatbanks do not require prior permission to open branches in centres with population less than 1 lakh, which is subject to reporting. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25% of their new branches in unbanked rural centres. Of the total 6,317 new branches opened during 2012-13, almost 65% were located in rural and semi-urban areas. Banking connectivity has been extended to 268,454 villages up to March 2013 from 67,694 villages in March 2010. A total of 7407 rural branches have been opened during the period 2010 to 2013.

   In the Annual Policy Statement for 2013-14, banks have been advised to consider frontloading (prioritizing) the opening of branches in unbanked rural centres over a three year cycle co-terminus with their FIPs. This is expected to facilitate the branch expansion in unbanked rural centres.

b) **Agent Banking - Business Correspondent/ Business Facilitator Model:** In January 2006,the Reserve Bank permitted banks to utilize the services of intermediaries in providing banking services through the use of business facilitators and business correspondents. The

   BC model allows banks to do ‘cash in - cash out’ transactions at a location much closer to the rural population, thus addressing the last mile problem.

- In January, 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem.

- To ensure increased banking penetration and control over operations of BCs, banks have been advised to establish low cost branches in the form of intermediate brick and mortar structures in rural centres between the present base branch and BC locations, so as to provide support to a cluster of BCs (about 8-10 BCs) at a reasonable distance of about 3-4 kilometers.

II) <u>ACCESS</u>

a) **Relaxed KYC norms:** KYC requirements for opening bank accounts were relaxed for smallaccounts in August, 2005; and thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts.

RBI has allowed 'Aadhaar' to be used as one of the eligible documents for meeting the KYC requirement for opening a bank account.

b) **Roadmap for Banking Services in Unbanked Villages**

- In 1st phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March 2010. Banks have successfully met this target (74,144 villages) and have covered 74398 unbanked villages. (99.7% achievement)
- In 2nd phase, Roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2000 in a time bound manner. About 4,90,000 unbanked villages with less than 2000 population across the country have been identified and allotted to various banks. The idea behind allocating villages to banks was to ensure availability of at least one banking

outlet in each village.

- Further, Dr. Raghuram Rajan, Governor, RBI gave more stress on financial inclusion on his statement on 04 September 2013. He asked Dr NachiketMor to head a committee on financial inclusion, to review the approach and suggest the way forward to the development mission of the RBI.

III. PRODUCT

a) **Bouquet of Financial services:** In order to ensure that all the financial needs of thecustomers are met, RBI have advised banks to offer a minimum of four basic products, on as Basic Banking Account (previously known as no-frill account): i) a savings cum overdraft account, ii) a pure savings account, ideally a recurring or variable recurring deposit, iii) a remittance product to facilitate EBT and other remittances, and iv) entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC)

IV. TRANSACTIONS

- **Use of Technology:** Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communication technology (ICT), to provide doorstep banking services through the Business Communication (BC) model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

- **Direct Benefit Transfer (DBT):** The recent introduction of direct benefit transfer, leveraging the Aadhaar platform, will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans to route all social security payments through the banking network, using the Aadhaar, Government's Direct Benefit Transfer (DBT) initiative, banks have been advised to: i) open accounts of all eligible individuals in camp mode with the support of local Government authorities, ii) seed the existing and new accounts with Aadhaar numbers and iii) put in place an effective mechanism to monitor and review the progress in implementation of DBT.

Progress of Financial Inclusion Plan, as on March 2013

A snapshot of the progress made by banks under the FIPs (April 2010 to March 2013) for key parameters, during the three year period is as under:

- A total of 268,454 number of banking outlets have been set up in villages as on March 2013 as against 67,694 banking outlets in villages in March 2010. Total 7404 rural branches opened during the period.

Table 2.3: Progress of Banks in Financial Inclusion

S. N	Particulars	Mar-10	Mar-11	Mar-12	Mar-13
1	Total No. of Branches	85457	91145	99242	101567
2	No. of Rural Branches	33433	34811	37471	40,837
3	No. of CSPs Deployed	34532	60993	116548	-
3	Banking outlets in villages	67694	116208	181753	268,454
4	Banking outlets in Villages with population >2000	37791	66447	112130	-
5	Banking outlets in Villages with population <2000	29903	49761	69623	-
6	Banking Outlets through Brick & Mortar Branches	33378	34811	37471	40,837
7	Banking Outlets through BCs	34174	80802	141136	221,341
8	Banking Outlets through Other Modes	142	595	3146	6,276
9	Total Banking Outlets	67694	116208	181753	268,454
10	Urban Locations covered through BCs	447	3771	5891	27,143
11	No Frill A/Cs (No. In million)	73.45	104.76	138.50	182.06

12	Amount in No Frill A/Cs (Amt In billion)	55.02	76.12	120.41	182.92
13	No Frill A/Cs with OD (No. in million)	0.18	0.61	2.71	3.95
14	No Frill A/Cs with OD (Amt In billion)	0.10	0.26	1.08	1.55
15	KCCs-Total-No. In million	24.31	27.11	30.23	33.79
16	KCCs-Total-Amt In billion	1240.07	1600.05	2068.39	2,622.98
17	GCC-Total-No. in million	1.39	1.70	2.11	3.63
18	GCC-Total-Amt Inbilion	35.11	35.07	41.84	76.34
19	ICT Based A/Cs-through BCs (No. in million)	13.26	31.65	57.08	81.01
20	ICT Based A/Cs-Transactions (No. In million)	26.52	84.16	155.87	250.46
21	ICT A/Cs-BC- Transactions - Amt. in Rs billions	6.92	58.00	97.09	233.88

Source: RBI

- Nearly 109 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added, taking the total no. of BSBDAs to 182 million. Share of ICT based accounts have increased substantially, percentage of ICT accounts to total BSBDAs has increased from 25% in March 2010 to 45% in March 2013.

- Banks provide small over drafts (ODs) in such accounts. Up to June 2012, banks had provided 9.34 lakh ODs amounting to Rs.37.42 crore against 1.31 lakh and Rs 8.34 crore respectively in March 2012.

- Banks have also introduced a General Purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi-urban braches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security. Interest rate on the facility is completely deregulated. As on March 2013, banks had provided credit aggregating Rs. 76 billion to 3 million GCC accounts.

- Kisan Credit Cards to small farmers have been issued by banks. As on March 2013, the total number of KCCs issued was as 33 million with total amount outstanding to the tune of 2633 billion.

It is important to analyze this progress against the some disturbing trends that were noticed in the run up to the structured Financial Inclusion initiatives that the banks launched since 2010 onwards. *First*, the number of banked centres in the country between 1991 and 2007 had actually come down from 35,236 to 34,471. *Second*, the number of rural branches during the same period had also declined significantly from 35206 to 30409 (refer chart 1). Against this backdrop, the progress made during 2010-13 is certainly remarkable in figures.

2.8.2 Initiation of Financial Inclusion by NABARD

After the 1990s some important steps have been taken for the financially excluded people as launching Self-help groups linkage programmes in 1992 by NABARD. Simplifications of Know your customer (KYC) norms is another milestone. In 1998, Kisan Credit Card has been launched and on the suggestion of NABARD in 2005 General credit card has been launched which facility up to Rs 25000. In January 2006 NGOs, SHGs, and Microfinance Institutions were permitted by RBI. Now MFIs currently cover 8.3 million borrowers. MFIs, Self-help groups (SHGs) also meet the financial service requirements of the poorer segments.

Table 2.4: Progress of SHG bank linkage programme (numbers in millions)

Particulars	2009-10	2010-11	2011-12
Total number of SHGs savings linked with banks	6.95	7.46	7.96
Total savings amount of SHGs with banks (Rs bn)	61.98	70.16	65.51
Total number of SHG credit linked during the year	1.58	1.19	1.15
Total amount of loans disbursed to SHGs during the year	144.53	145.47	165.34
Total number of SHGs having loans outstanding	4.85	4.78	4.35
Total amount of loans outstanding against SHGs	280.38	312.21	363.40

Estimated number of families covered	97.00	97.00	103.00

Source: Status of Micro Finance in India, NABARD

The SHG-Bank Linkage program and other NABARD Microfinance programs have made a significant contribution to the investment process in India. The SHG-Bank Linkage and Microfinance Institutions (MFI) Program - Banking Linking Program has been recognized as an effective tool for inclusive growth to expand financial services to various sectors that are not yet affiliated with poor and rural households. As of 31 March, 2012, there were more than 7.96 million savings linked to SHG and more than 1.15 million credit linked to SHG with a total savings of RS 65.5 billion. Amazing system access enabled
an estimated 103 million families to access subsidized financial assistance in the official banking system as can be seen in the following table.
NABARD has reviewed the guidelines, for the SHG model, popularly known as SHG2 (version 2), addressing some of the shortcomings of the previous version. Key features of the SHG2 area) focus on voluntary savings, b) lending program within a three to five year cycle to reduce the problem of insufficient financing and the availability of recurring loans, c) enable the establishment of Joint Commitment Groups (JLGs) within SHGs to expand economic activities by additional members of the group business, d) develop risk reduction programs by providing third-party research, e) building second-tier institutions, f) strengthening self-reliance) meeting the training / capacity building needs of SHGs.

ITC's e-Choupal infrastructure, which aims to strengthen Farm Sector Development through Public-Private Partnerships, enables even small and medium-sized farmers, who do not have access to the legal market, to access relevant information and extension services. This allows real-time pricing and improved farm production and quality, making them more competitive in the national and international markets. Currently, ITC has 6,500 e-Choupals covering 40,000 villages and more than 4 million farmers. In 2013, the e-Choupal network is expected to cover more than 100,000 villages, representing one sixth of rural India, and build more than 10 million e-farmers. On the other hand, the NABARD-sponsored Farm Club Club program, which was started by banks, aims to organize farmers so that they can access credit, extension services, farm technology and markets. Although the ITC plans to expand the e-Choupal campaign, the opportunity to partner with the ITC to provide such infrastructure to the approximately 77,000 Farmers Clubs, may be considered. Partnerships arising from such partnerships can lead to sustainable investment (Chkrabarthy, 2012a).

2.8.3 Micro insurance, IRDA and Financial Inclusion

In India, insurance coverage is very low, with 4.1% health and 0.7% non-health, comparable to any developed or developing countries such as the US, UK, China and Brazil. It is estimated that some 290 million people living near the BPL mark have no insurance at all. Therefore, India needs to travel a long way to get better insurance.

To provide a fence against these unexpected risks, small insurance is widely accepted as one of the key components of investment packages. Micro-insurance is often understood as the provision of multiple insurance services to low-income households with a small guaranteed amount. Churchill (2006) is of the opinion that micro-insurance works by combining risk, funded by standard premiums and designed for the poor who could not afford to buy insurance. A recent study conducted by CGAP (2009) estimates that India's small-scale insurance market has about 14 million adults covered by life micro-insurance in India. In a country with about 120 million families living on less than $ 2 a day, this is the smallest portion of the small insurance market that can exist. A large part of this market is for compulsory debt-related insurance disbursed by small financial institutions (MFIs), rural banks, and co-operative banks. India as the second most populous country in the world has a large population living on less than $ 1 but less than $ 2 a day. The IRDA's small insurance regulations have provided compliance in the distribution of small insurance as a mental health issue. Minor insurance regulations have been in place since 2005. These regulations add to the business obligations of the rural and community industry that must be made by all insurance brokers annually.
In the sub-categories of life insurance, there are 16 insurance companies doing business, of which 15 are private and LIC is the only company from the public sector. However, the LIC plays an important role

this section also, as it holds about 90% of the market share in the collection of the premium and no policies have been issued. The following table provides the data of the agents, the total number of individual and group policies under the sub-life insurance category. The table shows a growing trend in the first three years of policies, premium and programs but there is a decline in 2010-11. The reason for such a decline may be due to a lack of policies and policies that can be renewed by the owners.

Table 2.5 : New Business Under Life Micro-Insurance portfolio

		Individual		Group		
Year	Agents	Policies	Premium	Schemes	Premium	Lives Covered

		(lakh)	(Rs cr)		(Rs Cr)	(lakh)
2008-09	7,250	22	36.6	6,897	206.0	126
2009-10	8,676	30	158.2	5,207	243.4	168
2010-11	10,482	37	130.4	5,469	155.2	153
2011-12	12,797	46	115.7	5,573	109.8	102
Source: IRDA						

The overall performance of small insurance in India is not very encouraging. According to a recent study by UNDP (2007), access to micro-insurance is estimated at five million people, covering only 2 percent of the world's poor. It shows that there are many opportunities in the micro-insurance market in the country. The average size of the small insurance market (both health and non-health) in India ranges from Rs 62,304.70 to 84,267.55 million (US $ 1,384.55 to 1,872.61 million).

Acharya and Bisht (2012) analyzed the factors that led to the acquisition of small-scale health insurance products in Odisha. As part of the study the authors interviewed senior executives as well as senior executives of other MFIs who were in the process of distributing micro, health insurance products, both debt-related and private. Some of the beneficiaries were also interviewed for this program. Findings from MFI staff interviews indicated a conflict of interest between

different participants. First of all, risk companies / insurance companies do not develop products that remember the poor rather they float products with unconditional conditions to reduce claims in general. So the type of products they develop do not always be strong in society. In the small insurance business only insurance companies are making a profit and not MFIs or NGO-MFIs. The poor do not benefit as they are forced to buy products they do not need. For example, they are forced to buy a personal risk policy while they need a health insurance policy or a maternity policy. Insurance is not ready to make the product the way you want it to in life as it sees a loss in that and makes a profit on the personal risk policy. MFI is not considered a trustee when drafting policies where the interests of the poor can be addressed. Thirdly, the insurers / risk carriers of the small insurance business primarily to fulfill the social obligation clause stipulated by the IRDA. Lastly, the beneficiary loses the benefits of small insurance especially if there are a lot of programs available without proper information on strategies / products. The study also found that beneficiaries had less knowledge of general insurance and policies purchased by them in particular (especially associated with smaller loans). After analyzing the possible factors that drive ideas and as a result the need for a vector of the four elements namely, help, image, individual ideas, and time appeared as the final element structure.

2.8.4 Role of PFRDA in promoting Financial Inclusion

: As part of the government's 'investment' plan, the Department of Finance has announced a new plan in 2010 called 'Swavalamban' to encourage people from the informal sector to voluntarily save their retirement savings and reduce operating costs for the New Pension Scheme (NPS). of those who subscribed. Under this program, Government will donate Rs. 1000 per year per NPS account. ‘Swavalamban’ will be available to people joining the NPS, at least

donation of Rs. 1000 and a large donation of Rs. 12000 per annum in fiscal year.
Although the NPS is probably one of the cheapest financial products available in the country, to reach those who have been economically disadvantaged, the government in September 2010 introduced a less expensive version, known as the Swavalamban Scheme, which helps groups of people to join. NPS at significantly reduced costs. As an existing system under the NPS, Swavalamban can be found in the informal sector or in the NPS Lite. NPS Lite is a model specifically designed to bring the NPS into an easily accessible area of economically disadvantaged sections of society. NPS Lite is extremely affordable and functional due to its customized functionality available at reduced charges. Under the Swavalamban program, the government provides assistance to each NPS account holder and the program has been extended to 2016-17. A custom version of the main NPS model, known as the NPS Corporate Sector Model was also introduced in December 2011 so that organized organizations can move their existing and potential employees to the NPS under the Company Model. All PSBs have been asked to provide a link to their website so that subscribers can open NPS Accounts online.

- Minimum Pension Model: A pilot project developed by NABARD involving a grant of Rs 2.26

crore given sanctions on ‘Invest India Micro Pension Services (IMPS) - Micro Pension

Model ’, distributing and enrolling members of a small pension scheme developed by it in partnership with UTI AMC.

Invest India Micro Pension Services (IMPS) provides economically active but non-financially incapacitated urban and rural poor with easy and secure access to an integrated, savings and insurance product solution using a unique, risky and sustainable Micro Pension model. IIMPS is the only global firm it is committed to

to educate, encourage and enable working poor people to save a small amount of their old age in a safe, affordable and well-managed environment. In the IIMPS model, low-income people save an average of Rs.200 per month when they reach their young age. These monthly savings are distributed between the government's NPS-LiteSwavalambanthat managed by the PFRDA and a mutual fund program called the UTI Retirement Benefit Pension Fund. NPS Lite comes with locks up to 55 or 20 years depending on priority and the mutual fund system prevents early withdrawals with an exit load of 5% in the first year down to 1% from third year to years 58 years old. of age. NPS Lite invests up to 15% in stocks and the mutual fund scheme can invest up to 40% in stocks. In this case, IIMPS charges Rs.100 per annum and Rs.80 per annum.

The program is being implemented in eight of the four districts (Odisha, Uttar Pradesh, Bihar and Tamil Nadu) and aims to cater for 40,000 people under the old age pension. A total of Rs 2.03 crore was released at the end of March 2013. More than 20,000 low-income domestic workers, mainly SHG members, farmers and daily wagers are registered under the project and were saving Rs 100-200 per month due to old age .

 Problems in NPS-Lite IMPS

For investors with decent income, free income level and emergency fund portfolio, a product like NPS works best because it requires targeted investment and locking your money for that purpose; even the mutual fund works very well at this stage. But when investors are in the low-income bracket under volatile earnings and costs, as well as debt traps, they reach products connected to the market.

For them, saving money for old age is not the key, but to protect their health, their lives and to manage temporary financial shocks. Considering the need, the first category of products to be funded should be health insurance, pure health insurance, bank and postal deposits and later the Public Provident Fund for long-term savings. These products are needed to build a sound and guaranteed foundation before any investment can be made in products connected to the market.

It is well known that, over time, business shares are more efficient than other categories of assets, but then there is an associated risk. Given this and there is no basis for certified products, should equity exposure be included in the first financial product they purchase? And should they have their money confiscated while not even preparing for a rainy day? There is no single product that meets all the financial requirements so institutions operating in the investment sector need to use a holistic approach. Even banks need to skip the idea of meeting their registration requirements and need to reach customers with needs-based financial products.

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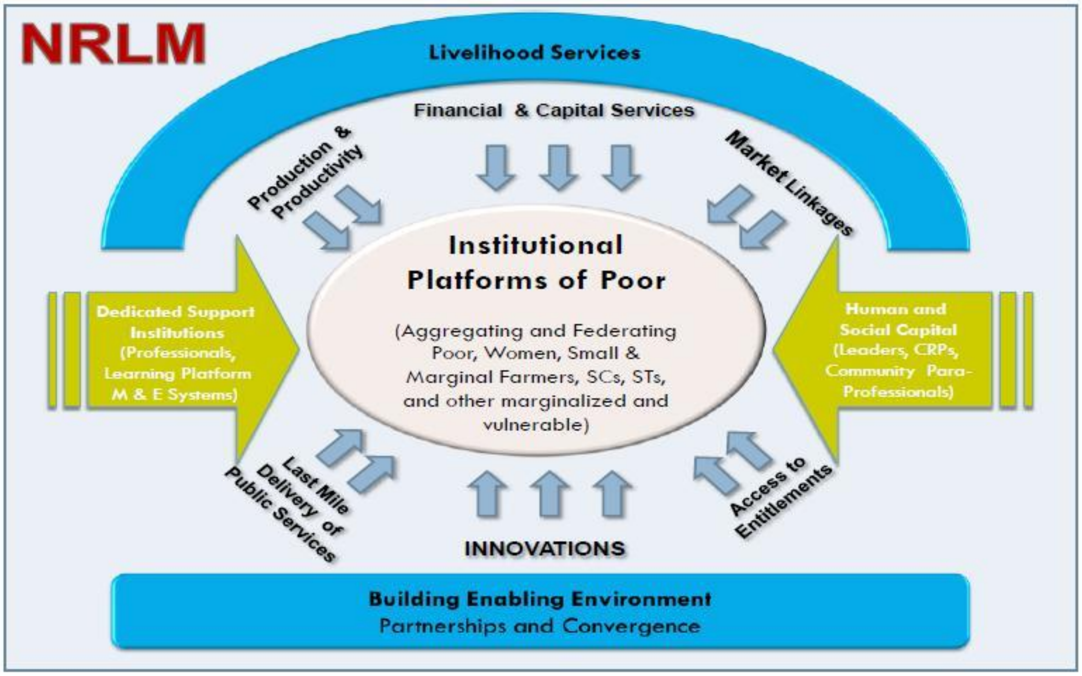
2.8.5 Linking of livelihood initiatives with financial inclusion

The Department of Rural Development, Government of India, introduced the National Rural Livelihood Misson (NRLM) by reorganizing the Swarnajayanti Gram SwarozgarYojna (SGSY) to replace the existing SGSY programs since April 2013, although the program was first launched in June 2010. The main objective of this program is to reduce poverty by creating stronger institutions for the poor, especially women, and to enable these institutions to access more financial and subsistence resources.

The NRLM promotes a radical transition from a 'distribution-based' strategy to a 'need-driven' strategy in which provinces can implement their own skills development programs for SHGs and Organizations, infrastructure and marketing, and SHG funding policy. The NRLM will provide ongoing support to SHGs, and their affiliates. This was not in SGSY. So, basically, NRLM is talking about rural livelihoods through Self Help Groups (SHG). The NRLM concept framework is as follows:

Chart 5: Conceptual Framework of NRLM



Source: Programme implementation plan, NRLM, Ministry of Rural Development, GoI.

As discussed in Chapter 2, investment (access to finance at affordable cost) is critical to reducing poverty. In this context, NRLM's investment strategy aims to make the poor as popular customers and banks feel like a lucrative business model. The NRLM strategy options are proposed in terms of a simple triangle that reflects the interdependence of the three forces namely, income, costs and risk, which affects the health of poor households.

This program (NRLM) will continue with the SHG-Bank link model of NABARD. It will be used in government structure (District, District and Institution). In the region, the State Rural Livelihood Mission (SRLM) will hold talks with banks to promote SHG debt consolidation. By continuing the RBI's investment campaign, State Level Bankers'

The Committee (SLBC) will form a special sub-committee on SHG bank connectivity and finance and the activities of the subcommittee will be to plan, co-ordinate, monitor and review investment and credit communications. Eventually, in the state, SRLM) will be the only institution responsible for implementing this program.

Issues in NRLM Implementation

The NRLM promises a lot in terms of the creation and strengthening of rural livelihoods but has the problem of serious shortcomings, which if not addressed will see the same pattern as the IRDP, SGSY and / or other programs. Therefore, in this case, we present the critical issues that raise the risk of failure regarding the implementation of the NRLM:

 Although, SHGs have contributed to the investment, only reliance on SHGs can be

limit on the use of this program. Since not everyone in the rural area a

is a member of SHG and not everyone can wish to be a member of SHG. Given the changing nature of our society, the choices and information available to the public the sustainability of such programs in the medium to long term will determine the ongoing activities of SHGs. As NRLM seeks to build on existing SHG networks it is important to activate inefficient SHGs, bringing quality work to revenue-generating SHGs.

 As membership in SHGs is constantly changing and new SHGs are coming to the fore

NRLM in SHGs could lead to the exclusion (rather than inclusion) of rural poor. Kwe

processing of people who are incapacitated and / or unable to participate in SHGs may be excluded. The question raised here is “Can NRLM focus on the home as a target system?”.

 Third, NRLM may also focus on rural MSMEs, which, like the experience of many

developing countries, can play a major role in allowing and sustaining inclusive growth in rural areas

places. MSMEs are an engine of growing and developing economies and require targeted interventions. One of the key areas for NRLM to focus on is building a strong and healthy ecosystem for agricultural MSMEs through various chains.

 Fourthly, the NRLM strategy is very broad. Instead of trying to do more

things across the board, it might be better if NRLM learns from its past experiences (e.g.

such as the IRDP or SJSY) and focuses on areas that could impact the lives of many rural people so that they can quickly benefit from this program and gain inspiration and momentum, which is crucial to medium and long-term success.

Even after 64 years of independence, we are still plagued by problems of rural life and investment. Please consider the reasons for the current situation. Is it a design problem or an implementation? Both successes and failures in terms of design and implementation can help in solutions. It looks like there are a lot of programs and offers for different players including government.

2.9 Urban Financial Inclusion in India

In India the government's investment efforts with other regulators such as the RBI, IRDA, PFRDA etc., are still very much focused on the rural poor, as large numbers of people remain penniless in rural areas. But in urban areas, we feel that access to the banking network is very high, as about 36 percent of the total branch network located in both urban and urban areas, provides its products and services to only 30% of the total population of the country. However, the basic facts are alarming, as the problem of isolation spread even to urban areas, in particular, to disadvantaged and low-income people, although there is no shortage of bank branches.

Over the past 3 years (FY10 to FY13), banks have opened 26,696 BC stores in urban areas, as part of an investment campaign. But, success is far from what was expected. Many of the urban poor still have limited access to legal financial products and services such as savings, debt, remittances and insurance, forcing them to rely on illegal sources to meet their personal, health, and livelihood needs. Not surprisingly, they find it difficult to repay such loans, which have made it difficult for them to escape the pitfalls of poverty.

2.9.1 Reasons & Possible Solutions to Urban Exclusion

Currently, the urban population in our country is growing much faster than the population growth is already complete. The most important reason could be immigrant workers. Every year, large numbers of people move from city to city in search of a better life for themselves and their families. They take on non-contractual and permanent jobs for traders, carriers, traders, builders, housekeepers, rickshaw pullers, etc. For the urban poor, the migrant workers' team is most affected by the financial crisis. in urban areas. These urban workers are mostly people who come from low-income households

they often leave their homes in search of better income and employment opportunities. Many of these people work and live in their workplaces and are paid daily wages. They need a safe place to store their money and a place to withdraw small amounts from time to time. In many migration corridors, migrants have arrears in their areas (rural home), especially in informal sources, and remittances are a major source of loan repayment.

By 2030, it is estimated that about 40 percent of Indians will be living in cities and towns compared to the current 30%, which would lead to an increase in the number of urban poor, currently set at 80 million by the NSSO. This large portion of the population does not have access to basic banking services such as deposits and remittances. However, because of the permanent permanence of their jobs, they often change the background within the city or in all cities. Banks are often found to be shy in providing them with banking services, for obvious reasons. The main reasons for exclusion from urban areas may be due to the following reasons, such as: (i) inability to produce sufficient documentation, (ii) assurance or presenter, (iii) lack of information and (iv) due to their short duration. net worth. If some of them have an account, they do not know about the banking services offered to them, so do not use them effectively. Due to lack of financial information and general negligence, even those with money continue to keep their money at home or prefer to participate in informal savings programs such as chit fund.

In our first survey, we also found that the urban poor have no bank accounts; most of them travel once a month to their home village to give money to their dependents. In their spare time, they borrow from family, friends, local lenders, mainly because of the speed (24x7x365) and easy access to finance, even at an average interest rate of 5-8 percent per month as the lender understands his financial situation again. obstacles. Otherwise, negligence

for the urban poor in the formal financial resources, despite being less expensive, is also caused by the attitude and attitude of service providers, which needs to be simpler and more supportive. sources of funding for their needs, 'flexible' and 'appropriate'.

2.9.2 Solutions to Urban Exclusion

. Therefore, there is an urgent need for financial institutions to learn the rigorous principles of informal programs and that they need to be included in the activities of as many legitimate service providers as possible. Another solution would be product development in financial services, taking into account the needs of the urban poor living cycle. Banks need to innovate to create demand-based savings, credit products and customized cash to keep pace with urban health and poverty. Providing small savings products, one by one, to meet the savings needs of these groups, may not be enough. New financial products that provide potential investment opportunities, without taking into account the need for savings, should be considered to bring the urban poor into the banking system. Insurance coverage protects the property created by debt consolidation and protects you from damage by illness, death, accidents or property loss caused by fire, drought, floods and riots. Half of the urban poor, who are determined to save regularly, even if they earn less, should be given the opportunity to invest in increasing the fair rate of return on their savings, without putting too much risk. Joint financing and illegal sector pension schemes, which are in line with the financial needs of the poor, should provide sustainable income as they do not understand the complex markets.

Fittingly, the custom delivery channel is equally important in urban areas. The South African E-

Bank program demonstrates how a commercial bank can integrate services into low-income customers. Itsuniqueness lies in its focus on customer banking needs, which has led to the creation of a new product that offers a less expensive delivery system. The idea was to provide an integrated combination of product and delivery features, including branches that were easy to use, easily accessible, technically sound. E banks are readily available in high-traffic areas with colorful, well-designed, easy-to-use products. Instead of relying on conventional advertising methods, E-Bank used market presence, life insurance and prizes to produce word advertising. This approach provides product and delivery features that are valuable enough to make low-income customers willing to pay ATMs slightly above market size and high enough to pay bank charges.

Bringing the urban poor into a single financial system can serve as an important investment gateway. The release of a fixed financial product, delivered through an easy-to-use channel, is critical to achieving investment. This should be integrated seamlessly with the strategy to improve the financial knowledge of the target groups. This is where we will be able to avoid the problem of small transactions of newly opened accounts, which we are currently facing in our efforts to invest in rural areas.

Most importantly the community must radically change the way it views the workers and the people who provide us with handicrafts. Every job has its dignity and we must respect the efforts made by these groups of people and their role in making our lives comfortable and trouble-free.

2.10 Recent Policy Initiatives and Passed Bills to induce Inclusion

2.10.1 New Bank Licensing in Private Sector

: Finance Minister in his Budget speech announced new bank licenses to expand banks investment. Similarly, the RBI has come up with the latest New Bank Licensing guidelines, which allow business houses, state-owned enterprises and non-bank financial institutions to suspend banks, in an effort to extend banking services to half of unregistered people. . The key points of the guidelines are: (i) Developers must submit a minimum payment of Rs.500 billion, (ii) Developers withholding at least 40% of the five-year closing amount, (iii) The Bank will open at least 25% of its branches. non-bank households (population 9,999 as the latest figure), (iv) The bank must comply with the lending principles and sub-terms applicable to existing domestic banks, and (v) The bank must keep at least 13 CAR CAR% for at least 3 years. In addition, the RBI has given itself the power to reject those 'business models' and 'non-banking' practices. In addition, Banking

Regulations (Amendment) The 2012 Act strengthens the regulatory capacity of the RBI and paves the way for the licensing of new banks by the RBI.

The RBI's decision to allow new players in the banking sector has received a thumbs up from the Indian industry. The campaign has led 26 companies, including Tata Sons, Aditya Birla, Reliance Capital, Bajaj Finserv, L&T Financial Holdings, IFCI and India Post, to apply for bank licenses. The RBI is in the process of forming an external committee led by Drs. Bimal Jalan and the committee will be made up of people with a good reputation. The committee will review applicants' licenses after initial applications by RBI staff. The external committee will make recommendations to the RBI governor and deputy governors, and will propose a final slide to the RBI Executive Committee. The final license may be issued before January 2014.

New banks are needed to increase bank access, access and access, while increasing access to

facilities. The investment plan, which aims to bring all Indian families under the legal banking sector, will mean that more banks have to get into disputes.

This is because the RBI has mandated that all new players must open one branch in four rural areas. Additionally, increased participation from the private sector will mean more competition, which will ultimately benefit customers.

If the new banks do more than they do the existing banks will be expanded. The RBI has emphasized that new banks need to focus on investment. Final guidelines do not make inclusion an important point of discussion. The first set of licenses granted to the private sector in 1993 brought significant changes, modern technology, better customer communication, technology and data-driven decision-making. It has had a positive impact on the banking sector and can be called a game changer. It is difficult to predict the potential investment in these new banks. Will any new players come out with a business plan that will attract RBI to this program? The RBI has made it clear that new banks will integrate new technologies and technologies, improve efficiency, increase financial efficiency to meet the needs of economic debt and create greater jobs in the country. But the question remains about the capacity of these new banks to achieve the desired branch development and inclusive growth where the functioning of the existing private banks is not encouraging.

2.10.2 Pension Fund Regulatory and Development Authority (PFRDA) Bill

Parliament on 4 September 2013 passed the Pension Funds Management and Development Bill (PFRDA Bill), thus giving the PFRDA the mandate. The main purpose of the bill is to provide a framework for planning for the payment of old age pensions through its New Pension Scheme (NPS). NPS is a defined contribution plan and is based on the principle of 'saving while earning' especially when you retire. As the years of life and the changing family structure become more common, the Bill is expected to deepen the pension and pension market to ensure the financial security of the elderly.

To date, the NPS is compulsory for all Central Government employees (excluding armed soldiers) on duty from 1 April 2004. Twenty-six provinces have already notified the NPS of their staff (excluding West Bengal and Tripura). The NPS has been introduced to all citizens of the country including illegal workers, on a voluntary basis, from 1 May 2009. In addition, to encourage people from street sectors to voluntarily save their retirement, Government has introduced a co-contributory. a pension plan entitled “Swavalamban Scheme” in the 2010-11 Budget.

 The passing of the pension bill will be good for financing the needs of the fund

infrastructure sector. Design pension funds are a vehicle for creating future financial applications

output. Therefore, when pension funds are invested in infrastructure, it creates a more direct response where the supply infrastructure promotes further GDP growth. The total investment in the infrastructure sector in Program Twelve (2013-17) is estimated at Rs 55.7 lakh crore (debt and equity), and pension funds are expected to contribute at least Rs 1.5 lakh crores in the debt category.

Table2.6 Availability of debt by sources of funds (Rs lac crore)		
Commercial banks	11.65	51%
NBFC	6.19	27%
Pension and/ life insurance	1.50	7%
ECB	3.31	15%
Total	22.65	100%
Source: Planning Commission		

This estimated contribution by pension funds towards infrastructure is on the lower side given the potential for developing pension market in India. However, as on 14 August, 2013, the number of subscribers under NPS was 52.83 Lakh with a corpus of only Rs 34, 965 crore Hence, convincing pension funds to invest in infrastructure as an asset class will be a challenge. There is need for a separate policy to address this aspect of risk perception.

2.11 Challenges to Financial Inclusion

:: The current goal of inclusive growth and financial stability will not be achieved without ensuring global investment. The multi-bank investment is expected to unleash greater power in the public sector at the bottom of the pyramid. However, in pursuit of the FI goal, the standard banking model is available in terms of cost, balance, comfort, reliability, flexibility and continuity. To ensure that banks pay enough attention to investment, they should view this as a viable business proposal rather than a social responsibility or regulatory obligation. For the business to continue operating it may need to focus on increasing the use of existing banking infrastructure which is only possible if banks are able to provide a wide range of products and services to the owners of many key accounts opened at the last minute. . three years and for new customers acquired by banks. If the dream of global investment and purpose is to be transformed into a reality, then we will need to focus on the following issues

Strategy for further financial inclusion

- **Leadership:** Cultivate a broad-based government commitment to financial inclusion to helpalleviate poverty.
- **Diversity:** Implement policy approaches that promote competition and provide market-basedincentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance), as well as a diversity of service providers.
- **Innovation:** Promote technological and institutional innovation as means to expand financialsystem access and usage, including addressing infrastructure weaknesses.
- **Protection:** Encourage a comprehensive approach to consumer protection that recognizes theroles of government, providers and consumers.
- **Empowerment:** Develop financial literacy and financial capability.

- **Cooperation:** Create an institutional environment with clear lines of accountability andcoordination within government, and also encourage partnerships and direct consultation across government, business and other stakeholders.

- **Knowledge:** Utilize improved data to make evidence-based policy, measure progress, andconsider an incremental "test and learn" approach acceptable to both regulator and service provider.

- **Proportionality:** Build a policy and regulatory framework that is proportionate with the risksand benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.

- **Framework:** Consider the following in the regulatory framework, reflecting internationalstandards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk based AML/CFT regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

- **Innovative product lines & processes:** Banks have to look at their policies and proceduresto develop new product lines rather than merely adopting the complex products of urban India in the rural milieu. Providing simple and basic banking services in the form of deposit account with remittance services and small credit facility would ideally suffice for bringing the unbanked into the folds of banking system.

2.12. Summing up

Investment efforts have made great strides over the last few years. However, given the diversity and size of our country, much remains to be done. It is clear from the discussion above that the policy begins with a focus on bank registration followed by promoting savings and debt for the poor and needy. Without direct government debt. supported programs and programs in collaboration with SHG bank have played a significant role in Government. by supporting the MFI framework. The main focus of services is divided into insurance, pensions, cell phone payments, and education / education. Much progress has been made in deposit and debt. Some resources will still be used despite the efforts of various stakeholders.

For example, based on the experience of countries such as Kenya, as well as the rapid growth and expansion of mobile phones in the country, there is a need to develop mobile-led banking models for financial inclusion as services provided by EKO and SBI. LITTLE. performed in other parts of India. Banks have a public responsibility and in this context, investing in increasing access to credit in high-risk sectors is essential. Integrated growth and investment have played an important role in public policy to achieve continued high growth in India. If the country is going to record double digit growth over the next 10 or 15 years, it is important that poor, poor and low-income people should have access to banking and financial services. Availability of simple and inexpensive banks
savings, investment and debt services enable people to get out of poverty through debt for productive and efficient purposes.

The evolution of sustainable investment strategies, to see it as a viable business proposal has been made possible by the discovery of Information and Communication Technology which has made it possible to move people to non-banking and low-cost environments. In the following chapters a real effort is made to ensure the quality of the investment, as well as to look at issues related to the provision of third-party financial services data and quality courses.

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CHAPTER III
FINANCIAL INCLUSION IN INDIA:
AN EMPIRICAL ASSESSMENT - 2007-08 TO 2011-12

3.1. Introduction

. In this chapter an attempt is made to assess the progress in investing based on the definitions set out in Chapter II. Therefore, the annual data set of the major Indian regions in the SHG Bank Linkage system and Micro Finance Institutions is used to create an Investment Index (FIIND). Data on the number of SHGs with savings accounts, number of borrowed SHGs, SHG savings, SHG loans, number of MFIs and MFI remaining loans are collected by the number of available years ie 2007-08, 2008-09 , 2009-10 and 201 -12. SHG-related variable data is collected in NABARD annual reports. Data on MFIs are collected from the report on the state of the small finance sector in India published by Sage India and the rapid data for Bharat Microfinance 2012.

3.2. Indices on Financial Inclusion: Some Previous Studies

There have been various attempts by different authors and other institutions to measure the depth of investment using integrated banking index data. The most recent investment indicator is CRISIL-Inclusix 2013. CRISIL Inclusix is India's first complete rate of investment in the index. To quote the report, “It is a related indicator with a rating of 0 to 100, and it covers the three most important parameters of basic banking services - branch inflows (BP), deposit deposits (DP), and credit checks (CP) - together into one metric. At each of these parameters, CRISIL assesses investment at the national / regional / regional / regional level in accordance with the defined criteria. 100 CRISIL Inclusix scores indicate the correct status of each of the three parameters ”. All-India

The CRISIL Inclusix score of 40.1 (on a scale of 100) is relatively low compared to a report suggesting a slowdown in official banking institutions in many parts of the country as reported. In another study Sarma (2012) developed a computerized indicator of multiple investments in data banking, access to services, and the use of 62 countries during the period 2004-2010. The findings show different levels of inclusion in different countries for better improvement over time between 2004-2010. The study finds that restrictions on a few high-income countries tend to be high on investment.

Chattopadhyay (2011) developed an Investment Index (IFI) using three-dimensional investment data to monitor the continuation of national / provincial investment programs over a period of time. The results showed that in a group of 18 regions in West Bengal where the 3-dimensional IFI was rated using 3-dimensional investment data, Kolkata gave the highest IFI rate followed by the Darjeeling region. Only one region, namely, Kolkata which had a higher IFI with IFI 1.0. All other regions had lower IFI values, varying between 0.0 and 0.3.

A study conducted by ICRIER (2009) ranked India at 29th low (55 countries) with an investment index of 0.2. The index used information for three comparative measurements in all consolidated countries - (i) access (measured by banking system, number of bank accounts per 1,000 people), (ii) availability (number of bank branches / ATMs per 100,000 people) and (iii) utilization of banking services (credit volume and GDP-related deposits). The study also highlighted the link between human development and investment. With low investment the author concludes that it is not surprising that India's human development index, is set at 119 (UNDP, 2009)

169. Therefore, it is clear that improving the country's investment climate will require a concerted effort by all stakeholders - government, regulators, banks and others.

3.3. Financial Inclusion Index (FIIND)

At this stage FIINDs are estimated to use the same method as in Sarma (2012) in the major Indian provinces for four different years. Assessing the ability of service providers to promote investment focuses on variables related to low income or disadvantaged people. As mentioned in the literature the SHG bank liaison system and small financial institutions (MFIs) were trying to reach the vulnerable by providing them with credit and savings. Therefore the data on the number of SHGs with savings accounts, the number of SHGs with payments, SHG savings, SHG loans, the number of MFIs and the remaining MFI loans are used as separate rates to calculate FIIND.

3.3.1. Methodology

Inclusion can be measured from different dimensions. We have estimated here with the multi dimensional approach discussed in Sarma (2012). These dimensions may be number of SHGs, total number of branches and total amount of savings and loan portfolio in a year. To derive the state wise financial inclusion index (FIIND), first we have estimated each dimension index followed by the final inclusiveness index.

The dimension index (D_i) has been calculated using the following formula, which measures the states ith dimension inclusion index.

$$Di = wi\,\{\frac{Ai - mi}{mi - Mi}\}$$

Where,

w_i is the weight assigned to the dimension i, indicating the relative importance of the dimension i in quantifying the inclusiveness. $0 \leq w_i \leq 1$. For simplification, we have taken w_i as 1.

A_i = Actual value of dimension i

m_i = lower limit on the value of dimension i

M_i = upper limit on the value of dimension i.

The formula ensures that the value of D_i will be in the range $0 \leq D_i \leq w_i$. The higher the value of D_i means the higher the state's achievement in dimension i. If n dimensional financial inclusion case is considered then a state's achievement in these dimensions will be represented by a point X = (D1, D2,....Dn). To compute the final FIIND, the following formulae are employed:

$$X1 = \frac{\sqrt{D_1^2 + \ D_2^2 + \ \ + D_n^2}}{\sqrt{w + \ w_2^2 + \ \ + w_n^2}}$$

$$X2 = \ 1 - \frac{\sqrt{(w1 - D1)^2 \ + \ (w2 - D2)^2 \ + \ \ + (wn - Dn)^2}}{\sqrt{w + \ w_2^2 + \ \ + w_n^2}}$$

FIIND = –[X1 + X2]

FIIND is a simple average of X1 and X2, thus incorporating distances from both the worst point and the ideal point. Since, w_i is 1 then the IFI would be:

$$FIIND = \frac{1}{2}\left[\frac{\sqrt{D_1^2 + D_2^2 + \quad + D_n^2}}{\sqrt{n}} + \left\{1 - \frac{\sqrt{(1-D1)^2 + (1-D2)^2 + \quad +(1-Dn)^2}}{\sqrt{n}}\right\}\right]$$

Thus FIIND is being calculated using seven dimensions (D1 to D7) of an inclusion, such as, no of SHGs and amount of deposits in saving accounts, no of SHGs and amount of loan disbursed, No of MFI clients and total MFI loan outstanding and number of commercial branch offices. The study is focused on state-wise progress in financial inclusion based on the above parameters.

3.3.2. Results and Discussion

The final inclusion index is being reported in the following table, which presents a state-wise index of 30 states for the period of four years,The index of inclusion lays in the range of 0 to 1, higher the index value, better is inclusion. The ranks are being assigned on the basis of index value.

- The results shows that Andhra Pradesh is placed at the no 1 position in all the years but the level of inclusion is being increased over the year from FY08 to FY12. The states like Tamil Nadu, West Bengal, Maharashtra, Karnataka and Odisha have consistently performed well.

- The north-eastern states are under performed as the index is at a very low level. The data also substantiates such finding since the level of banking facilities have not penetrated well in these regions. There are few SHGs in these states.

Table 3.1: State wise FIIND

Index of Inclusion for Various States

States	2007-08		2008-09		2009-10		2011-12	
	FIIND	Rank	FIIND	RANK	FIIND	RANK	FIIND	Rank
Andaman and Nicobar	0.027	20	0.002	29	0.002	29	0.003	29
Andhra Pradesh	0.640	1	0.818	1	0.893	1	0.915	1
Arunachal Pradesh	0.003	28	0.046	19	0.058	19	0.004	28
Assam	0.057	14	0.037	20	0.049	20	0.138	13
Bihar	0.098	11	0.115	12	0.138	11	0.189	8
Chhattisgarh	0.053	15	0.065	15	0.066	16	0.071	18
Goa	0.019	23	0.015	23	0.015	23	0.013	23
Gujarat	0.145	9	0.121	11	0.153	9	0.160	10
Haryana	0.047	17	0.054	16	0.065	17	0.073	17
Himachal Pradesh	0.026	21	0.028	21	0.030	21	0.034	21
Jammu & Kashmir	0.067	13	0.071	14	0.077	14	0.026	22
Jharkhand	0.048	16	0.052	17	0.067	15	0.075	16
Karnataka	0.307	3	0.408	3	0.424	4	0.532	2
Kerala	0.160	8	0.164	8	0.185	8	0.242	6
Madhya Pradesh	0.106	10	0.127	9	0.152	10	0.160	9
Maharashtra	0.204	7	0.341	5	0.429	3	0.413	4
Manipur	0.004	27	0.004	27	0.004	26	0.005	25
Meghalaya	0.007	25	0.011	24	0.014	24	0.009	24
Mizoram	0.004	26	0.006	26	0.004	27	0.004	27
Nagaland	0.003	29	0.003	28	0.003	28	0.005	26
New Delhi	0.046	18	0.052	18	0.063	18	0.077	15
Orissa	0.211	6	0.220	7	0.264	6	0.237	7
Punjab	0.025	22	0.028	22	0.029	22	0.096	14
Rajasthan	0.098	12	0.125	10	0.138	12	0.149	12
Tamil Nadu & Pondicherry	0.339	2	0.432	2	0.599	2	0.159	11
Tripura	0.010	24	0.009	25	0.013	25	0.034	20
Uttar Pradesh	0.240	5	0.235	6	0.256	7	0.347	5
Uttarakhand	0.033	19	0.108	13	0.122	13	0.045	19
West Bengal	0.252	4	0.407	4	0.418	5	0.437	3

Note: States are ranked based on the FIIND values

- In all most all states, the FIIND values have increased over the period, which might imply that the banks and other financial institutions are doing very well in implementing the inclusion initiatives of the states and central Government.
- The FIIND of Tamil Nadu and Pondicherry is indicating a downward movement. We hope Tamil Nadu is performing well but due to Pondicherry the index is low. Due to data unavailability, these two have been clubbed and treated as one state.
- Andhra Pradesh, Karnataka, West Bengal, and Uttar Pradesh are the top performers in the year 2011-12 and the worst performers are Nagaland, Mizoram, Arunachal Pradesh, and Andaman-Nicober.
- Goa has a lower value of FIIND probably because the SHG and Micro finance activity as indicated by the chosen parameters are lower than that of the other states. It may also be due to higher urbanization and the inclusion index that captures urban activities might show higher inclusion status. For instance the CRISIL Inclusix(2013) finds Goa to be one of the top five performers. Goa's score is 72 for 2011. The index in this study considers only SHG and MFI parameters and therefore Goa shows a lower score.

3.4. Financial Inclusion (FIIND) and Reduction in Rural Poverty

Investment is important for growing and reducing inequality and poverty. Report on 'Investment Role plays a Vital Role in Reducing Poverty, Inequality and Promoting Employment', by the World Bank, has said that the transformational power of investment in South Africa should not be underestimated. Improved access to finance by poor households and small businesses can open up opportunities for income and independence for many '.

In this study, I made an effort to see the link between investment and poverty reduction. . Government-wise poverty statistics i.e. the percentage of people below the poverty line are derived from the RBI Data Database for 2011-12 and the inclusion index is taken from our FIIND state intelligence index (see table 5). Since the FIIND input index is based on SHGs, which are mainly found in rural areas, we have used the percentage of rural poverty by percentage.

Table 3.2: Percentage of Population Below Poverty Line in 2011-12			
States	**Rural**	**Urban**	**Combined**
Andaman and Nicobar	1.57	0.00	1.00
Andhra Pradesh	10.96	5.81	9.20
Arunachal Pradesh	38.93	20.33	34.67
Assam	33.89	20.49	31.98
Bihar	34.06	31.23	33.74
Chattisgarh	44.61	24.75	39.93
Goa	6.81	4.09	5.09
Gujarat	21.54	10.14	16.63
Haryana	11.64	10.28	11.16
Himachal Pradesh	8.48	4.33	8.06
Jammu & Kashmir	11.54	7.20	10.35
Jharkhand	40.84	24.83	36.96
Karnataka	24.53	15.25	20.91
Kerala	9.14	4.97	7.05
Madhya Pradesh	35.74	21.00	31.65
Maharashtra	24.22	9.12	17.35
Manipur	38.80	32.59	36.89
Meghalaya	12.53	9.26	11.87
Mizoram	35.43	6.36	20.40
Nagaland	19.93	16.48	18.88
New Delhi	12.92	9.84	9.91
Orissa	35.69	17.29	32.59
Punjab	7.66	9.24	8.26
Rajasthan	16.05	10.69	14.71
Tripura	16.53	7.42	14.05
Uttar Pradesh	30.40	26.06	29.43
Uttarakhand	11.62	10.48	11.26
West Bengal	22.52	14.66	19.98
Source: RBI			

In my view, a better inclusion in a year may not being results in poverty reduction in the same year. Here, I have computed the correlation between the poverty numbers for the year 2012 with the FIIND index numbers for the year 2007-08, 2008-09 and 2009-10. The correlation Matrix is:

Table 3.3: Correlation Matrix: Poverty ,Financial Inclusion

	FIIND08	FIIND09	FIIND10	FIIND12
P12	-0.04	-0.04	-0.03	-0.02

Note: P12: Rural Poverty for 2011-12 and FIIND: Financial Inclusion Index for respective years

The result indicates that there is a negative correlation between the rural poverty numbers and the financial inclusion, which implies better the inclusion, lower the poverty in the states.

3.5. Concluding Remarks

To summarize this chapter an attempt was made to create an investment index (FIIND) for thirty provinces using the boundaries associated with the SHG Bank and Micro Finance Institutions linkage program over the last four years. Age selection is largely driven by the availability of consistent data on selected parameters. In most provinces, FIIND rates have risen during this period with the exception of a few options which may mean that the SHG banking system and Microfinance institutions are well-functioning in terms of deposit and credit programs.

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CHAPTER IV
FINANCIAL INCLUSION AND SUPPLY SIDE CONSTRAINTS
: SOME ISSUES AND EVIDENCE

4.1 Introduction

In this chapter the issues affecting the provision of funds in investment are discussed in a few terms. To initiate data on non performing assets (NPA) due to SHG portfolio of banks is analyzed. A case study was then presented with a discussion of the interviews of the branch managers of the local government sector in order to understand the potential problems on the supply side. A case study of a mobile banking system conducted by the State Bank of India called SBITINY is presented. Finally, the reasons why people choose informal sources for borrowing are more than official sources.

4.2 SHG-Bank Linkage Programme and Financial Inclusion

Over the past two decades, the new establishment of an institution in India to improve access to finance and utilization of the poor and disadvantaged has become the SHG-Bank Linkage Program (SBLP). This was the result of pilot projects in the 1980s that improved access to the rural poor through legal financial services. For banks, it was a way to reduce their transaction costs by working with groups of people rather than individuals, reducing credit risk through peer pressure and making people safer. Next in 1992, the National Bank for Agriculture and Rural Development (NABARD) launched a pilot project to link SHGs with bank branches across the country. The project provided a low-cost SBLP model for providing financial services to the neglected poor. Being a model for 'savings first, credit later', credit discipline became the norm for SHGs and 'public collateral' made.

them bankable. The model was also successful in providing a solution to the twin problems she was facing

by banks, that is, lower repayment of rural loans and higher transaction costs to deal with

occasional small borrowers. One of the great positive effects of the SBLP was social cohesion

and economic empowerment of members.

Particulars	FY10	FY11	FY12
Total number of SHGs savings linked with banks	6.95	7.46	7.96
Total savings amount of SHGs with banks (Rs bn)	61.98	70.16	65.51
Total number of SHG credit linked during the year	1.58	1.19	1.15
Total amount of loans disbursed to SHGs during the	144.53	145.47	165.34
Total number of SHGs having loans outstanding	4.85	4.78	4.35

Total amount of loans outstanding against SHGs	280.38	312.21	363.40
Estimated number of families covered	97.00	97.00	103.00

Source: Status of Micro Finance in India, NABARD

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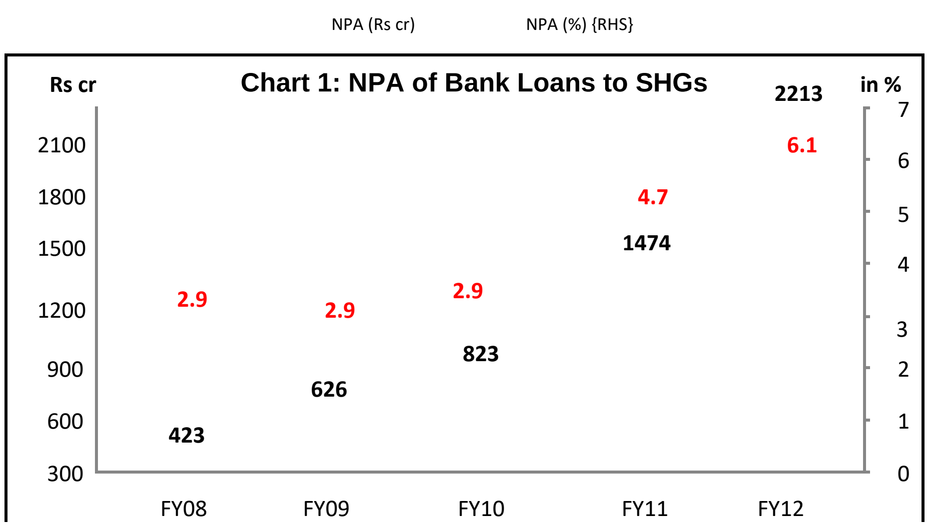
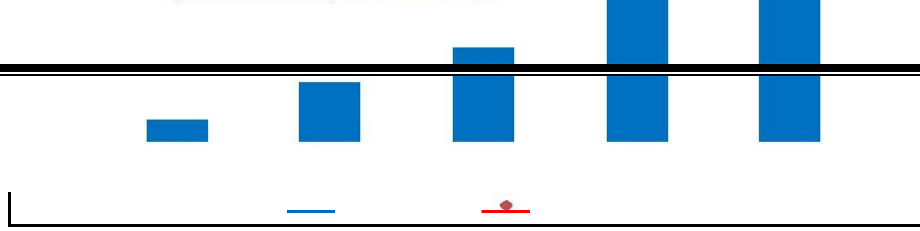
Despite the noteworthy accomplishments of SHGs (refer table 1), certain issues, such as, inadequate outreach in many regions, delays in opening of SHG accounts and disbursement of loans, impounding of savings by banks as collateral, non-approval of repeat loans by banks even when the first loan was repaid promptly, multiple membership, borrowings by SHG members within and outside SHGs, adverse consequences of unhealthy competition between NGO promoted SHGs and Government promoted/subsidy oriented SHGs and limited banker interface and monitoring continued to affect the programme in many areas. While the basic tenets of the SHGs being savings led credit product remain true even today, recent developments have given rise to the need for crucial changes in the approach and design of SBLP to make it more flexible and client friendly.

The revised NABARD guidelines, popularly known as SHG2 (version 2), have sought to address some of the shortcomings of the earlier version. The major features of SHG2 are : (a) more focus on voluntary savings; (b) cash credit system of lending over three to five years cycle to minimize the problem of inadequate finance and non-availability of repeat loans; (c) enabling creation of Joint Liability Groups (JLGs) within SHGs to scale up economic activities by more entrepreneurial members of the group; (d) improving risk mitigation systems by bringing in third party audit; (e) building second tier institutions; (f) strengthening the self-monitoring mechanism and (g) meeting the training/capacity building requirements of the SHGs

4.3. Rising Non-Performing Assets (NPAs) of Bank Loans to SHGs



In the past, a number of studies quantified the excellent repayment performance of above 90%, which was one of the driving factors



that influenced banks to actively participate in the programme. However, with fast expansion in terms of numbers and geographies, delinquencies are creeping into SBLP. As per NABARD data the Non-Performing Assets of banks against loans to SHGs has gone up from Rs 422.93 crore (2.9% of NPA to O/S SHG loans) in 2007-08 (1st time banks reported to NABARD) to Rs 1474 crore (4.7% of NPA) in 2010-11 and further deteriorated to Rs 2,213 crore (6.1% of NPA) in 2011-12.

In the recent years, it is observed that the y.o.y. growth in NPA is much higher than the loans growth to SHGs (refer chart 2). This is an adverse situation and banks may voluntarily abstain from the SHG portfolio, which we observed during the field study also.

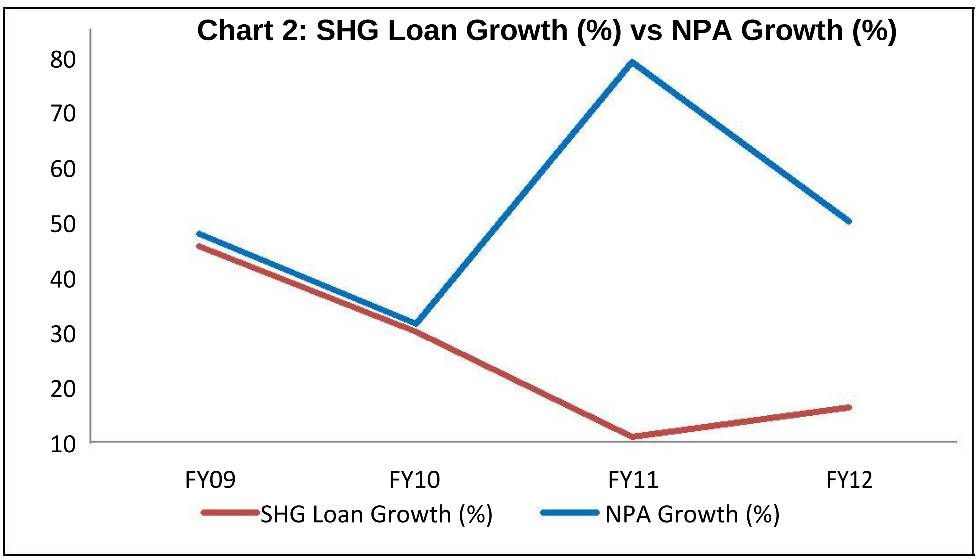


Chart 2: SHG Loan Growth (%) vs NPA Growth (%)

The trend of increasing NPAs is observed across all regions of the country (refer chart 3). Among the regions, southern region

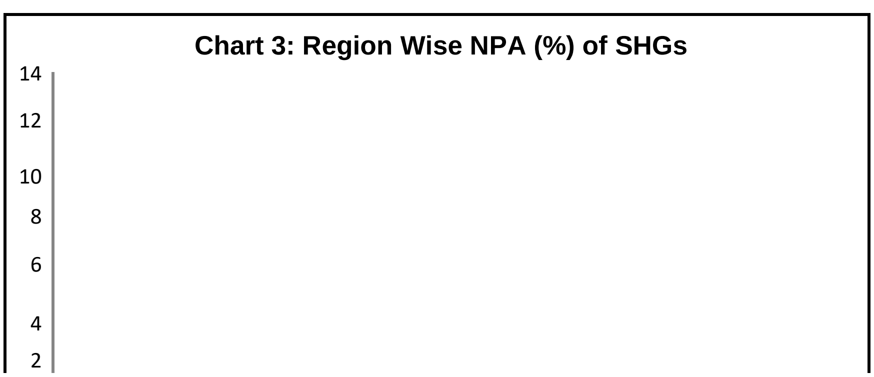
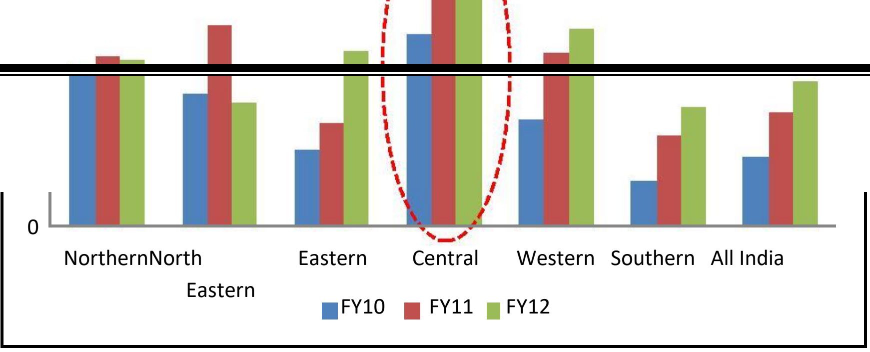


Chart 3: Region Wise NPA (%) of SHGs



With a NPA of 4.98% (3.79% last year) was the Lowest while Central Region with an alarming 13.2% (10.7% last year) was the highest. The higher level of NPAs against the SHGs in central and northern regions needs to be addressed as these are the states where the financial inclusion are at the lowest levels.

There is an urgent need to probe the causes for delinquencies in SHG lending for redesigning the strategies of the SHG movement. Otherwise, the continuously increasing NPAs in this programme may force bankers to go slow on SHG lending, which in turn may affect the financial inclusion drive as SBLP is one of the important tools for financial inclusion.

4.3 State Level Analysis on Supply Side Constraints

In the following table the NPA in percentage terms are presented for all states with their ranks for five years i.e. 2008-2012. The ranking is done in terms of lowest NPA to highest NPA.

State Wise Analysis of NPAs against Bank Loans to SHGs										
STATES	FY12	RFY12	FY11	RFY11	FY10	RFY10	FY09	RFY09	FY08	RFY08
Andaman & Nicobar	4.84	9	0.00	1	0.23	1	0	1	11.80	14
Andhra Pradesh	3.46	5	2.02	2	1.29	5	0.5	2	8.01	7
Arunachal Pradesh	16.24	26	6.51	16	3.99	14	5.3	16	122.94	27
Assam	4.59	7	8.31	19	5.29	20	9.8	25	11.40	12
Bihar	6.18	13	4.07	8	5.27	19	7.2	20	8.43	8
Chhattisgarh	5.19	11	9.53	23	6.26	22	8.6	21	2.55	4
Goa	1.13	1	3.59	6	0.84	3	3.1	9	0.10	1
Gujarat	4.80	8	4.60	10	3.19	10	2.5	6	13.45	16
Haryana	6.28	14	3.95	7	5.06	17	4.1	13	17.93	21
Himachal Pradesh	10.38	21	7.31	17	5.12	18	5.9	19	1.67	3
Jammu & Kashmir	3.73	6	4.27	9	5.54	21	2.5	7	1228.20	28
Jharkhand	7.66	17	4.94	11	5.05	16	5.5	17	11.68	13
Karnataka	3.35	4	2.98	5	2.01	6	0.8	3	8.59	9
Kerala	9.04	19	8.61	22	2.52	8	3.5	10	4.84	5
Madhya Pradesh	22.45	28	11.28	25	8.2	24	8.6	22	44.55	26
Maharashtra	8.89	18	7.81	18	4.68	15	5.8	18	14.87	18
Manipur	20.72	27	17.40	27	12.99	28	11.7	27	16.10	20
Meghalaya	33.08	29	8.45	20	10.16	26	18.1	28	40.53	25
Mizoram	5.12	10	52.06	28	16.09	29	0.0	29	6.50	6
Nagaland	12.28	23	14.26	26	12.49	27	11.3	26	25.93	24
New Delhi	16.12	25	5.76	14	0.45	2	4	12	0.20	2
Odisha	11.86	22	6.24	15	3	9	4.2	14	9.20	11
Punjab	5.50	12	5.30	12	3.74	12	2.6	8	2880.50	29
Rajasthan	6.49	15	8.49	21	8.1	23	8.6	23	15.17	19
Tamil Nadu &Pondichery	9.58	20	1193.00	29	3.95	13	3.5	11	13.65	17
Tripura	2.79	2	2.16	3	1.01	4	1.7	4	8.80	10
Uttar Pradesh	12.51	24	11.08	24	8.79	25	9.4	24	21.54	22
Uttarakhand	7.08	16	5.61	13	3.26	11	4.7	15	21.83	23
West Bengal	3.11	3	2.28	4	2.19	7	2.0	5	12.41	15
Note: Rank: 1 is good (low NPA %) & Rank: 29 is Bad (high %)										

The figures for 2012 show Goa, Tripura, West Bengal, Kerala, Andhra Pradesh and Jammu Kashmir to be the top five states having lower NPAs with ranks one to five. States having higher NPAs with ranks 25 to 29 are New Delhi, Manipur, Madhya Pradesh, Meghalaya, and Arunachal Pradesh. The ranks have fluctuated for the states during the five years of our analysis. It's a bit puzzling to see rising NPAs of the SHG portfolio of banks which raises several questions on sustainability of SHGs towards inclusion efforts.

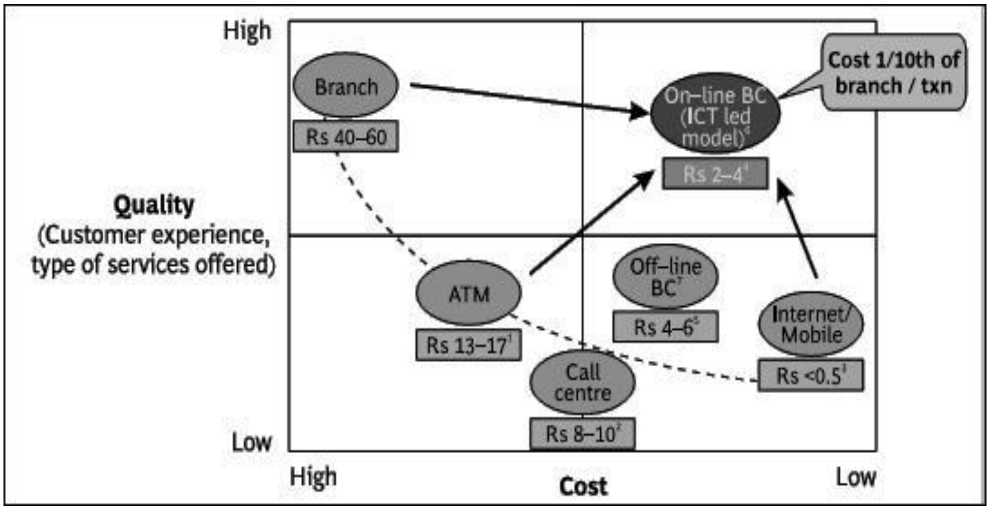
4.5 Cost Effectiveness of Banking Channels for Financial Inclusion

The other five ATM transaction channels, internet, mobile, call center and POS, have all reached critical weight in the Indian market and are poised to improve rapidly in terms of penetration depth and service quality. I guess (SBI Research report) estimated that cell phones will lead the way in the future. India has 900 million mobile subscribers, but only 240 million people have bank accounts. Of the 1.2 billion people, this translates into 75% with mobile phones and only 20% with a bank account. Therefore, cell phone investing is an important focus area.

New technological advances are taking place at an alarming rate. Understandably, over the next few years we will have cheaper phones with Near Field Communication (NFC) technology built-in to facilitate Peer-to-Peer (P2P) money transfer almost immediately. It is now clear that most POS payers will be using mobile phones instead of payment cards. Lots of small daily P2P items like payments to various vendors

it will go from money to cell phones. Given that cellular activity costs an ATM component or branch activity, the development of mass production that will accumulate in the banking system cannot be overemphasized. The advent of 3G on mobile phones in India could open up many avenues for the delivery of rich services. Important clients, if not working for a dedicated relationship manager, can get "face-to-face" financial planning advice on their mobile devices from a set of centralized advisors. According to the report, the Internet and mobile banking channels for bank delivery are the cheapest mode (<0.5 paisa) for banks, and branch services provide high quality and helpful customer service. But branch banking is very expensive as banks make an average of Rs 40-60 per transaction. The most effective way to deliver the 'BC BC, ICT-led model', which demonstrates high customer experience and low banking costs, as shown below:

BCG report report, internet and mobile banking are very expensive (<50 paisa per service) while branch resources are critical to customer acquisition. But branch banking is very expensive as banks make an average of Rs 40-60 per transaction. The most effective delivery mode of 'BC online, ICT-led models', which also provide high quality customer service.



Source: Source: Being Five Star in Productivity, BCG, FICCI and IBA Report, August 2012

Measures and Statistical analysis

Developed a simple set of questions to measure literacy skills that focus on numeracy component. Some of the materials used in the work have been developed mainly derived from previous research. These factors are related to financial and social empowerment and a particular standard of living. Financial literacy schools are conducted by filtering the correct and incorrect answers to the questions asked in these questionnaire sections. Some properties are measured using multiple objects and a five-point scale (e.g.

In my sample I interviewed 50 users of SBI TINY remittance services and 50 users of other financial management services.

	Control group	SBI Tiny
Financial Literacy	5.99	6.10
Empowerment	6.16	6.25
Service specific quality of life	97.26	97.43

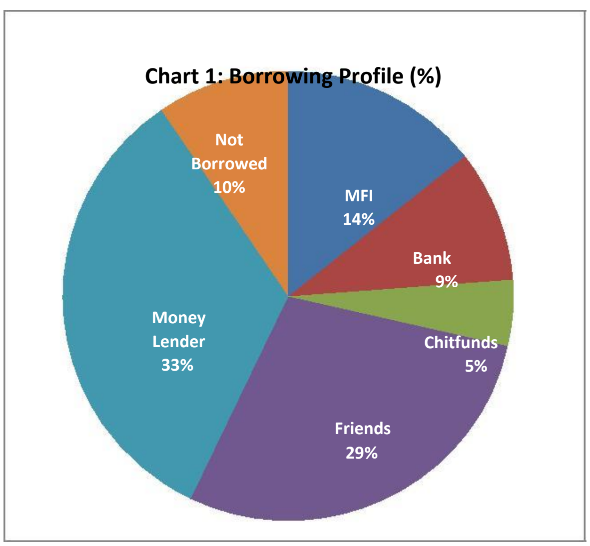
As seen in the box above SBI TINY users have higher scores on financial information, power, and quality of direct life compared to the control group that does not use this particular service. This first evidence favors a change in the quality of life when the appropriate financial service is introduced as an inclusive SBI TINY. Collaborating with users also shows that withdrawing money from these mobile-enabled technologies saves time and cost. A special feature of the field is that of a person who is committed to taking this service to as many people as possible. This is evident from the Balanagar branch of SBI TINY and agent Mr. Satyanarayana.

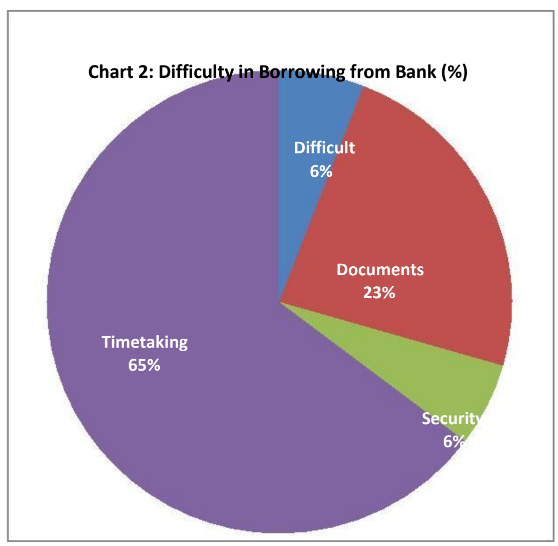
4.7. Preferring Informal sources of Borrowing: Results from A Small Survey

In this section results from a survey is presented to understand why people do prefer informal sources rather formal sources of borrowing like banking. A total of 10 families are being surveyed with a structured questionnaire (Appendix II). The results of the survey are being analyzed below:

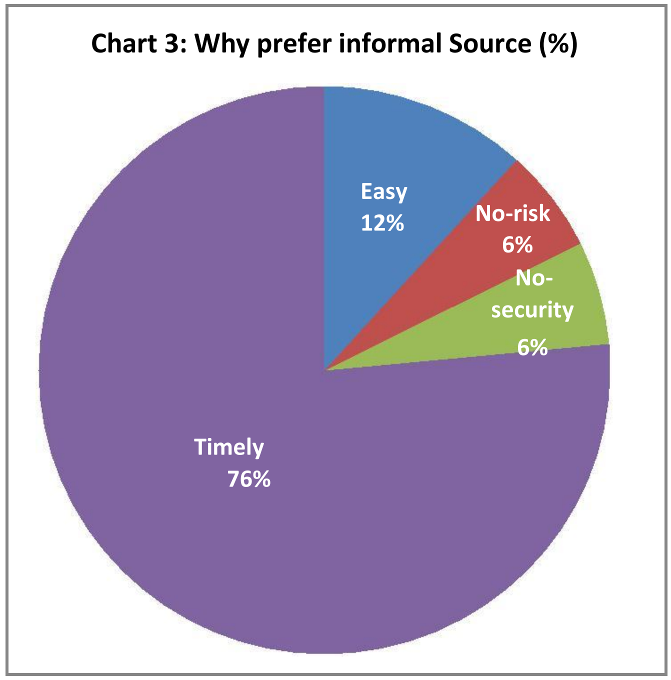
Banking Habits: Survey Results (%)		
	Yes	No
Peoples Having Bank Account	87.50%	12.50%
Membership in MFI	12.50%	87.50%
Borrowing in last 1 year	82.61%	17.39%

The inclusion level is high, as 87.50% of people are having bank account and some of the people are also membership in MFI institutions. But, when we see the borrowing profile, the story is very depressing; as there are only 9% of the sample people taking loan from Banks and 14% from MFIs. However, the percentage borrowed from money lender is much higher at 33%. The main obstacles to borrow from banks are: *i)* time taking procedure, *ii)* needs collateral security and *iii)* a number of documents required.





The survey found that people are borrowing from informal sources mainly due to timely and easy availability of money at their rainy day. The people are not much bothered about the interest rate offered by the informal sources, though it is higher than formal channels. Easy, timely and collateral free loans are preferred to bank loans by the borrowers even in these surveyed areas that are not far from bank branches. This small survey might go against the macro figures arrived in earlier chapters but it speaks volume of efforts warranted further towards financial inclusion.



4.8. Concluding Remarks

This chapter attempts to discuss the issues of supply chain with a focus on three issues. First, the rise of the NPAs in the SHG bank portfolio was followed by four different thirty years

he says, the selection of informal sources by borrowers from the districts and the causative factors

the same was discussed based on a preliminary survey of 10 houses.

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CHAPTER V
SUMMARY, CONCLUSION & POLICY SUGGESTIONS

5.1. Introduction

In recent times the debate over investing has grown worldwide. India has also not been left out of the debate. There has been an increase in investment efforts by all stakeholders, including Government, and non-governmental organizations. Given the huge need for investment in this densely populated country, clever efforts to understand the problems from both sides of the demand and supply chain have also been made in various ways including research. This current study is a small step towards this exploratory concept to explore the critical issues related to investment in India. Looking at the six-month period the study uses both secondary data and other basic evidence to answer the full question, "Has the investment happened in India?".

5.2. Findings of the Study

The Indian financial sector is dominated by the banking industry, as it holds about 75% of the financial assets of the system. Therefore, banks play an important role in promoting investment in the country, as we have followed the bank-led approach to investment. In this report, consider an effort to address both the demand side and the issues related to investment. In Chapter II, a critical review of all Government efforts, the RBI, IRDA, NABARD and PFRDA are underway. An overview of the Bank Investment Plan (FIP) over the past 5 years is also being tried. Statistics show that investment efforts are achievable to some extent in general and especially in savings and credit.

5.3 Policy Suggestions

The following policy recommendations were made without any long claims on the findings of the current study. After analyzing the second data and other initial evidence one finds that,
a) Debt is not sufficient as it is provided by the available legal sources and the debt is subject to strict conditions that have affected the credit facility from legal sources.

b) There is a need for services that require documentation and provide specific requirements in terms of value, payment flexibility and accessibility.

c) The ability to create a legitimate credit history is an important factor and there should be a way to link this to the efforts being made to bring non-participants to a common place.

d) The focus on the field is also due to the ability to win the trust of illegal sources despite having official sources. Informal sources have been able to attract potential creditors by simplifying, free and timely loan.

e) Acceptable low-cost technologies such as mobile-based financial services appear to be changing lives. Efforts should therefore be made to introduce less expensive technologies to the user but socially and culturally acceptable.

f) Awareness of products that people think they do not need right now or do not want due to lack of information about their benefits can play an important role in affecting demand patterns for certain products such as pensions and small insurance products. Therefore, the weight of these products can change with the changing demand being affected by increased levels of awareness. This change in demand may be a more appropriate measure of variability than the current level of awareness, which is difficult to measure using in-house surveys.

g) There is a need to understand that use can be linked to need in all situations. For example, an overcrowded urban slum client may, due to pressure or lack of any other available product design, end up using a product that requires group securities. The amount of the loan remains unchanged and does not change with the change in customer requirements, resulting in insufficient funds. Therefore, getting out of the lending option becomes even more difficult. This has implications for existing product design processes.

h) Understanding the categories of people with debt requirements is also important to determine how much weight they can place on various products and services.

Summarizing the answer to the question “Has the investment happened in India?” The research response will be “Yes to a certain extent” but there is much to be gained from adjusting both formal and informal institutions and institutional processes. Experiments by Government and Non-Governmental Organizations. they have left much to be built on, to establish and integrate with the poor.

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Appendix-I

Financial Inclusion in India

Respondent's Consent

Your participation is entirely voluntary and this form will take about 15 minutes. You can choose not to answer a question or stop the interview at any time. The information you share with us will be kept fully confidential and will be part of the repor. All interview recordings will be stored in a secure work space.

Will you answer our questions?

Yes……………….1 No………………..2 **TERMINATE**

1. What are the different financial inclusion initiatives implemented by the government?Name them.
2. What are the hindrances to mobilize deposits? What are the hindrances to advance credit in general and to low income groups in particular?
3. How many no frill accounts you have as of today?
4. How many SHGs do you use?
5. Have you approached SHGs to finance from your side but failed to advance loans under different schemes?
6. what might be the reason? High interest rates/lack of ideas to utilize the loan/any other reason?
7. Do you have relationship officers to facilitate such loans like banks have sales team in urban areas for retail loans?
8. Are there any banks or other sources in this area attracting customers by providing credit?
9. Do you think technology has a greater role in FI efforts?
10. Is current technology not enough/appropriate for you at this moment for FI initiatives?
11. Is access a problem like distance from villages or fixed working hours to further FI initiatives?
12. Any other difficulties/observations you would like to share with me?