SOUTH INDIAN Bank

STUDENTS' ECONOMIC FORUM

To kindle interest in economic affairs...
To empower the student community...

Open Access
www.sib.co.in
ho2099@sib.co.in

June 2010

Theme 223

THE BUSINESS OF FINANCIAL INCLUSION

PART I

A monthly publication from South Indian Bank

18th Year of Publication

www.southindianbank.com

Savings with Free Insurance for Women

Mahila
SAVINGS BANK & RECURRING DEPOSIT ACCOUNTS

SIB proudly presents an innovative Savings bank and Recurring deposit account exclusively for women with free insurance coverage - Mahila Savings Bank & Recurring Deposit Accounts.
We offer an array of revolutionary advantages, services and wealth management solutions to help every woman to achieve their goals.

FREE FACILITIES ATTACHED EXCLUSIVELY TO THE MAHILA SAVINGS BANK A/C.

◆ **FREE Accident death Insurance** cover exclusively to the first named female of the Mahila SB account for **Rs.1 lac** for the first 1 year worldwide and ◆ **FREE House to house Travel Insurance for Rs.0.50 lac** covering Loss due to snatching while travelling, burglary while in hotel stay, misfortune of jewellery and valuables like watches, camera and cash and also loss of baggage up to Rs.2,000/- exclusively to the first named female of the Mahila SB account for the first 1 year occurred within India. ◆ **FREE Remittance** by way of cash up to **Rs.50,000/- per month** to Resident Mahila ABB Account through other branches. ◆ **FREE Remittance** by way of transfer or clearing up to **Rs.50,000/- per month** to Mahila ABB Account through other branches. ◆ **FREE cash withdrawal up to Rs.10,000/- daily** through other branches **apart from Rs.20,000/-** through ATMs. ◆ **FREE** payment of cheque through speed clearing Pan India without limit. ◆ **FREE** purchase of **2 Draft/PO up to Rs.10,000/- Monthly** ◆ **FREE** 25 Cheque leaves per year. ◆ **FREE ATM cum Debit card with no AMC** ◆ **FREE** Internet banking facilities. ◆ **FREE** Bill payments, mobile top up & e-commerce through SIB website "southindianbank.com"

CONDITIONS ◆ All the free facilities will be available exclusively in the Mahila Savings Bank account only; ◆ In case minimum balance of Rs.1000 is not maintained in the SB account, normal service charges will be collected. General T & C attached to SIB's SB account will apply for this SB also. ◆ In case RD is closed before 12 months, a flat charge of Rs. 50/- as service charge will be collected. T&C attached to SIB's RD account will apply.

Disclaimer- Insurance cover is offered by United India Insurance Co. and the decision of the insurance company will be final.

For further details contact your nearest SIB branch or visit us at www.southindianbank.com.

Regd. Office: SIB House, Mission Quarters, Thrissur, Kerala, Pin - 680 001.
Email : sibcorporate@sib.co.in Tel : 91-487-2420020,
Toll free: 1800-843-1800, 1800-833-1800 (India)

SOUTH INDIAN Bank
Experience Next Generation Banking

Purchase your favourite LIC policies from South Indian Bank

Now join through South Indian Bank
NEW PENSION SYSTEM FROM PFRDA
LESS WORRY AND MORE SECURITY

SOUTH INDIAN Bank
Experience Next Generation Banking
The South Indian Bank Ltd., H.O. : 'S.I.B. House', Thrissur, Kerala

SIB STUDENTS' ECONOMIC FORUM

JUNE 2010

Theme No. 223 : THE BUSINESS OF FINANCIAL INCLUSION - PART I

Economic growth is undoubtedly desirable, but it is meaningful only if benefits of growth percolate to all sections of the population. An equitable economic development means increase in standard of living of the people of the lowest strata – the 'bottom of the pyramid'. It also denotes empowering the people to participate in the various social and economic opportunities and making these accessible to them. Financial Inclusion is the term coined towards the various endeavours and methods adopted to make basic financial services available to the vulnerable excluded segment of the population. It is considered a necessary condition towards the realization of the objective of inclusive economic growth. The importance of financial inclusion for inclusive growth is widely accepted now.

If benefits of economic growth favour the rich and the affluent more, income distribution in the economy will be skewed to a great extent, and it will adversely affect social and political balance of the country. It will also negatively impact long-term balanced economic growth. The 'trickle-down' theories of economic growth assumed that growth will automatically take care of the deprived. But this is no longer regarded as valid. There should be a direct, focused approach to confront deprivation in the economy.

What does the term 'financial inclusion' denote?

Financial inclusion conveys different meanings. Very often it is understood as providing reliable access to efficient payments system. This aspect is focused in the context of mobile phone-led retail payments. Sometimes, financial inclusion is seen just as micro-finance. It is true that micro-finance is a driving force for financial inclusion. In India, the term is used more comprehensively for reliable access to affordable savings, loans, remittances and insurance services. It necessarily implies access to a bank account backed by deposit insurance, access to affordable credit and the payments system.

What is the extent of ‘financial exclusion’ in India?

The extent of ‘financial exclusion’ in India is so pervasive that it requires urgent attention for addressing the problem. Out of the 600,000 human habitations in the country, only about 30,000 (just 5 percent) have a commercial bank branch. Only about 40 percent of the population across the country has bank accounts, and this ratio is much lower in the north-eastern part of the country. The proportion of people having any kind of life insurance cover is as low as 10 percent and those having non-life insurance is at an abysmally low of 0.6 percent. People having debit cards comprise only 13 percent and those having credit cards a marginal 2 percent. There are still millions of people who are poor and marginalized. Many do not conduct any banking transactions and even fewer receive any credit.

The data from the RBI conclusively point to the skewed distribution of banking institutions across the country. Clearly, banks have an urban bias, and metros and urban centres have been the largest beneficiary of bank office expansion. There is absence of banking services in the farm sector in general.

According to the Rangarajan Committee report on Financial Inclusion, only 27 percent of farm households in the country have access to bank credit. The committee called for access to financial services, including credit, to be raised to 50 percent by 2012 and to 100 percent by 2015. The business correspondent (BC) model with appropriate technology has to be the ‘core of the strategy’.

How is ‘inclusive economic growth’ and ‘financial inclusion’ related?

Though focus is on financial inclusion, the ultimate aim is an all-inclusive economic growth. Inclusive growth cannot take place without financial inclusion. Inclusive growth means that all members of the community/society are able to participate in the growth process and every individual stand to benefit from the development.

Financial inclusion is based on the principle of equity. It denotes access to affordable banking services for the entire population. In India, this requires a high level of penetration by the formal financial system dominated by the banking sector. Even in areas covered by banks, there are large sections of society excluded from the banking system. Also, financial inclusion and inclusive economic growth are now considered essential for the long-term political and social stability of the country.

Are ‘financial regulation’ and ‘financial inclusion’ contradictory or complimentary?

In India, the financial inclusion will be implemented along with financial regulation. Many see these two ideas contradictory with different types of approaches and objectives. Financial regulation aims to ensure integrity and bona-fides of the financial transactions, whereas financial inclusion targets further penetration of the financial services. Sound and reliable deposit taking entities, backed by deposit insurance for small deposits, accessible to all are considered essential for financial inclusion. Thus it is envisaged to have a convergence of financial regulation and financial inclusion in India. Also, it is observed that only sound and strong institutions can deliver financial inclusion so as to make it sustainable with the ability to achieve greater penetration. Therefore commercial banks will have the major role to play to further the cause of financial inclusion.

The Indian experience demonstrates that financial inclusion can work within the framework of mainstream banking within a sound regulatory framework. Regulations are used to facilitate financial inclusion without compromising on financial integrity or prudential norms. Thus financial inclusion is going to be a major challenging task for the commercial banks in India.

What are the new management insights on corporate endeavours towards financial inclusion?

The ‘bottom of the pyramid’ (BoP) of the population segment refers to the vast majority of the low income group. This a vast market in terms of needs and numbers compared to the top or the middle layers of the market. Low-income markets – the bottom of the pyramid - present a prodigious opportunity for the corporate enterprises to seek their fortunes and bring prosperity to the aspiring poor, according to Prof. C. K. Prahalad (former professor in Michigan University). It was Prof. C. K. Prahalad and Prof. Stuart Hart who coined the term “the fortune at the bottom of the pyramid”. Prof. Prahalad’s work on ‘bottom of the pyramid’ has helped corporates think rural and build sustainable business model. This is called as BoP –bottom of the pyramid- model of the business as a profitable proposition. The corporates should formulate new marketing strategies targeting the BoP segment, and design products and services for the largest market, thereby the overall welfare of the community will be served, at the same time, enhancing the profits of the enterprises.

The BoP theory calls on corporates to tap this vast market with a strategy which is beyond conventional thinking. But the initial cost of reaching out to the rural area will exceed benefits. In financial inclusion, the key factor of supply chain is the presence on the ground, or the proximity to the beneficiaries. But the cost structure of the organized banking system makes this an unviable proposition. Income generation for the rural India is predominantly agri-based. The solution to boosting income levels of the BoP segment is to strengthen the farm sector. The model for the bottom of pyramid requires corporate institutions to help create buying power, shape aspiration, tailor local solution and improve access. The service should reach a vast geographical spread and it should be door-step service.

The rural sector in the country played a crucial role in bailing out the Indian economy from the after-effects of the global financial crisis. The rural economy benefited from the NREGA and loan waivers which increased the buying power of the rural workers and farmers. But such income transfers may not be possible for a long run given the state of our fiscal deficit. Owing to low income and lack of appropriate infrastructure, bringing about inclusive growth is a difficult task. In this context, the corporates should formulate strategies targeting the 'BoP'.

The financial inclusion at the bottom of the pyramid will require a holistic approach on the part of the banks in creating awareness about financial products. Mere opening of account does not constitute financial inclusion. It happens when there are transactions in that account – transactions like deposits, credit or even remittances.

Are financial inclusion endeavours by banks going to be commercially viable?

Financial Inclusion endeavours can become viable business propositions. The success story of Dharavi, a bustling industrial slum in Mumbai is cited as example by the RBI. Dharavi exports goods worth $ 500 – 650 million every year. Even though Dharavi is situated right in the heart of Mumbai, it did not have a commercial bank branch for a long time. The first commercial bank branch was opened in February 2007. It was a great success as the bank branch registered good business. One more bank branch was opened and many more are eager to do so. This is an illustration of how banking the unbanked can be a win-win opportunity. Thus financial inclusion can be a commercially viable and profitable business proposition with suitable products and scalable technology.

The Bottom of the Pyramid

In economics, the bottom of the pyramid is the largest, but the poorest socio-economic group. Globally, this is the 2.5 billion people who live on less than $2.50 per day. The phrase "bottom of the pyramid" refers to new models of doing business that deliberately target that demographic segment, often using new technology.

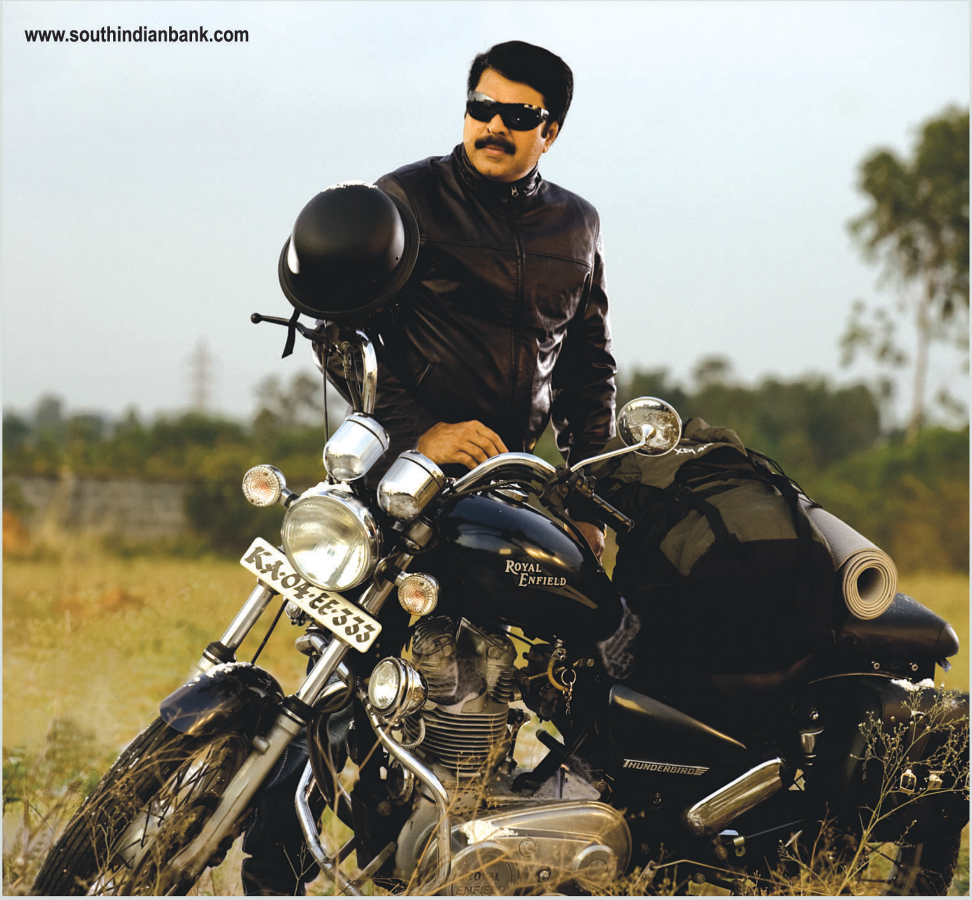
There are several publications on the theme. They include *The Fortune at the Bottom of the Pyramid* by C.K. Prahalad of the University of Michigan, *Capitalism at the Crossroads* by Stuart L. Hart of Cornell University and *Reinventing strategies for emerging markets: Beyond the transnational model*, by Ted London of the University of Michigan and Hart.

Prof. Prahalad proposes that businesses, governments, and donor agencies stop thinking of the poor as victims and instead start seeing them as resilient and creative entrepreneurs as well as value-demanding consumers. He proposes that there are tremendous benefits to companies who choose to serve BoP markets in ways responsive to their needs. After all, the poor of today are the middle class of tomorrow.

The companies should not ignore these traditionally overlooked people, collectively dubbed the "Bottom of the Pyramid," because of their considerable combined purchasing power. Thus, if companies are innovative enough to create or tailor their products to the economic realities and life needs of these people, significant profits can be won. At the same time, this group's entry into the market would enhance quality of life and aid in regional economic development.

There are examples to illustrate the concept. Grameen Bank was started by Nobel Prize laureate Muhammed Yunus in Bangladesh to offer mini-loans to entrepreneurs who would not qualify for traditional bank loans based on collateral. Millions of people have borrowed from the Bank with incredibly high levels of repayment. Cell phone providers have developed means of selling relatively cheap units to remote villages, allowing farmers, to check grain prices at the nearest market before deciding to market their products.

Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in



Wherever you are
feel our presence.

South Indian Bank presents

SIB eazyRemit

Quick and hassle free Fund transfer facility from US to India.

Experience the convenience and innovation of next generation banking at South Indian Bank. With the wide network and strong presence all over India, SIB easy Remit offers swift and hassle free fund transfer to your loved ones in India, sitting in the cozy environment of your home.

Wherever you are, experience the convenience of our presence.

For more details log on to
www.southindianbank.com and click at the link SIB eazyRemit
or Email to: ibd@sib.co.in

SOUTH INDIAN Bank

Experience Next Generation Banking

The South Indian Bank Ltd., Regd. Office: SIB House, P.B. No. 28, Mission Quarters, Thrissur - 680 001, Kerala. Phone: 0487 2420020, Fax: 0487 2442021, Toll free 1800-843-1800 (India), 1800-425-1809(BSNL).
Email: sibcorporate@sib.co.in