

## **7. What is the recent initiative on the part of Govt. of India to solve the problem of Financial Exclusion?**

The Government had in June 2006 constituted a committee on financial inclusion, under the Chairmanship of Dr.C. Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister.

This Committee was asked to, among other things, suggest measures including institutional changes to be undertaken by the financial sector to implement the proposed strategy of financial inclusion. It is understood that the Committee has firmed up its draft interim recommendations.

### **International experience in promoting financial inclusion**

An interesting feature which emerges from the international practice is that the more developed the society is, the greater the thrust on empowerment of the common person and low income groups. It may be worthwhile to have a look at the international experience in tackling the problem of financial exclusion so that we can learn from the international experience.

## **8. What are the steps taken in U.K. to promote Financial Inclusion?**

The Financial inclusion Task Force in UK has identified three priority areas for the purpose of financial inclusion, viz., access to banking, access to affordable credit and access to free face-to-face money advice. UK has established a Financial Inclusion Fund to promote financial inclusion and assigned responsibility to banks and credit unions in removing financial exclusion. An enhanced legislative environment for **credit unions** has been established, accompanied by tighter regulations to ensure greater protection for investors. A **Post Office Card Account (POCA)** has been created for those who are unable or unwilling to access a basic bank account. The concept of a **Savings Gateway** has been piloted. This offers those on low-income employment pound 1 from the state for every pound 1 they invest, up to a maximum of pound 25 per month. In addition the **Community Finance**

**Learning Initiatives (CFLIs)** were also introduced with a view to promoting basic financial literacy among housing association tenants.

### **9. What are the initiatives in USA to prohibit discrimination and to provide low cost banking service to people with low and moderate income?**

The civil rights law, namely Community Reinvestment Act (CRA) in the United States prohibits discrimination by banks against low and moderate income neighborhoods. The CRA imposes an affirmative and continuing obligations on banks to serve the needs for credit and banking services of all the communities in which they are chartered. In fact, numerous studies conducted by Federal Reserve and Harvard University demonstrated that CRA lending is a win-win proposition and profitable to banks. In this context, it is also interesting to know the other initiative taken by a state in the United States. Apart from the **CRA** experiment, armed with the sanction of Banking Law, the State of New York Banking Department, with the objective of making available the low cost banking services to consumers, made mandatory that each banking institution shall offer *basic banking account* and in case of credit unions the *basic share draft account*, which is in the nature of low cost account with minimum facilities. Some key features of the basic banking account are worth-mentioning here.

- The initial deposit amount required to open the account shall not exceed US \$25.
- The minimum balance, including any average balance, required to maintain such account shall not exceed US \$ 0.10.
- The charge for periodic cycle for the maintenance of such accounts to be declared up front.
- A withdrawal shall be deemed to be made when recorded on the books of the account holder's banking institution.
- An account holder shall not be restricted as to the number of deposits which may be made to the account without incurring any additional charge.

### **10.Can technology make a significant difference in the lives of financially excluded people?**

Economy in bloom and agriculture in gloom cannot go well together. Rural India has 700 million population in more than 6 lac villages. The average per

capita income of our villages is Rs.20/- per day. Banks can reach out to mass unbanked sector of the country in a truly effective manner based on cutting edge technology platforms. It can be accomplished with the help of alternate delivery channels so as to provide a reliable and low cost means of access to banking services by the unbanked people.

Technology can offer solutions for mobilizing savings of rural and semi-urban poor and financially excluded people so as to channelise it for productive purposes and give adequate return to them. Technology in due course can graduate the financially included people into providing them with alternate sources of higher returns such as investing in mutual funds, equity, debt, unit linked Insurance plan etc. Technology can also bring some degree of social security by financially including them into group or individual insurance for life, crop insurance etc.

The present day technology supports various options for dissemination of information which could either be community based or individual based. With the relevant information accessible to the rural people they would be motivated to use the information for their personal and social upliftment. At this point of time the Banks and the financial institutions can play a vital role in meeting their personal, social and professional financial requirements in the most effective way.

With the wide spread use of technology in the banking area both within the country and outside, it is for sure that technology can play a vital role in turning around the future of the rural India. As the technology deployment in the Banking industry and Financial Institutions is more than two decades old, it is the right time to leverage the benefits of technology in Financial Inclusion of the rural India in a big way. In fact, what could not be achieved during the past six decades of independence, now looks achievable in the near future with the use of contemporary technological tools.

With large scale usage of technology in India the benefits of economies of scale are already emerging through reduced cost of deployment of Technology. As more than 70% of country's population has yet to reap the benefits of technology, it would open up immense opportunities for the Private and the Corporate players to show their entrepreneurship and make the country healthier and wealthier. What is required is a sound planning and determination to execute. Technology is available to facilitate achieving this goal.

## Conclusion

It is in the larger interest of the society to bring to the banking fold, those who have been excluded from the benefits of the banking services. But these people are illiterate and unorganized. They are also below the poverty line. Hence, the task seems to be pretty huge, difficult as well as complex. This calls for a collective effort by banks, RBI, Government, SHGs and NGOs. It also calls for seriousness on the part of all those who are operating at the grass roots level. Any improvement in the Financial Inclusion would produce benefits to the poor rural households on one hand and banking community on the other. In particular, there is a vast business potential for banks by extending their coverage to those excluded. For this purpose, it is essential to develop a suitable business model and arrangements should be made for marketing of bank products, specially designed for such people. In addition, systems and procedures have to be reworked out to make the same customer friendly. More important is to develop a positive attitude on the part of bank staff towards those neglected thus far. In this regard, banks have a long way to go to cover those excluded from the main stream.

- It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit.
- The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through establishing linkages with microfinance institutions and local communities. Banks should give wide publicity to the facility of no frills account.
- To sum up, banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them. It may appear in the first instance that taking banking to the sections constituting ‘the bottom of the pyramid’, may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition.

