

CHAPTER-1

Financial Inclusion –An overview

Definition:

Financial Inclusion is the process of ensuring access to appropriate financial 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.

Objectives of Financial Inclusion:

- ❖ Financial Inclusion can help the society and the economy. Financial Inclusion has the ability to generate positive externalities: it leads to increase in savings, investment and thereby, spurs the processes of economic growth.
- ❖ It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot.
- ❖ Presence of banking services and products aims to provide a critical tool to inculcate the savings habit. It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal channels of credit like family, friends and moneylenders.
- ❖ Availability of timely, adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. It will open the doors of formal remittance facilities to the low income and unbanked populace who, presently, are forced to use all kinds of informal and costly ways of sending money from one place to another.
- ❖ Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments.
- ❖ Thus, on the whole, Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

Business Correspondent Model of Financial Inclusion

In order to extend the banking services to the unbanked/under banked villages in the country, our bank has initiated a branch-less banking model through KIOSK model of banking by appointing eligible individuals as Business Correspondents. This Business Correspondents (BC) will be an agent of the bank appointed on contract basis and will be authorized to undertake account opening and transactions on behalf of the Bank.

Our Financial Inclusion initiatives are spread across 4 States viz, Kerala, Tamil Nadu, Andhra Pradesh and Chhattisgarh. We have covered a total no. of 115 villages as on 31.12.2014 under South Indian Bank Financial Inclusion Plan which includes implementation of KIOSK Banking in 54 Sub Service Area allotted by SLBC in lead districts of Kerala. We have also implemented the concept of Urban Financial Inclusion by implementing Financial Inclusion in **15** urban centres in Kerala and Tamil Nadu.

ICT based FI Model- KIOSK Banking.

Kiosk is a kind of banking model to provide special sort of banking services in unbanked/under banked areas through Common service Centres and Business Correspondents with a laptop based solution to make special sort of Banking services to potential customers.

In order to widen the scope of Financial Inclusion, ministry of finance has directed banks to have Kiosk model of banking through Common Service Centers (CSC).CSCs have been set up in the country under the department of Electronics and Information Technology, Government of India under the national e-Governance plan. Akshaya e-Centers in Kerala are acting as Common Service Centres in the state.

Key Features of KIOSK Model:

- ❖ KIOSK application is Platform and Database independent.
- ❖ Online account opening with Banks Authorization.
- ❖ Online Transactions without any manual intervention in Banks CBS.

- ❖ Support AEPS Transactions(On-Us & Off-Us)
- ❖ Enables Card Less transaction using Biometric authentication for UID customers.

Pre-requisites for the Success of Financial Inclusion:

- Appropriate Technology
- Appropriate and Efficient Delivery model.
- Mainstream banks determination and involvement
- Strong collaboration Banks, Technical Service Providers and BC Services.

Branchless Banking:

- ✓ Service provided at their doorstep/ village
- ✓ Availability of Basic Banking Services throughout the day
- ✓ Hassle free for the villagers as there are no Challan/vouchers
- ✓ Familiarity in dealing with their own person (Business Correspondents).
- ✓ Disbursal of small value credit (Overdraft Facility)
- ✓ Collection of small value deposits.

Services Offered:

- Cash Deposits
- Cash Withdrawals
- Balance Enquiry
- Mini Statement
- Transfer of Funds between Own Account
- Self Help Group Accounts (SB and Loan Accounts)
- Aadhaar Enabled Payment System-On-Us and Off-US Transactions.

Easy Access-Relaxed KYC norms

- Know Your Customer (KYC) requirements have been simplified to such an extent that small accounts can be opened with self certification in the presence of bank officials.

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

A Way Forward:

(a) Increasing Reach

- Ensuring coverage of all unbanked villages in next 3 years.
- Emphasis on increasing rural branches
- Opening of bank accounts for all eligible individuals

(b) Increasing transactions

- Leveraging on DBT
- Delivery of credit products through Business Facilitators.

(d) Fine-tuning the BC Model

- Stabilizing the BC delivery model
- Encouraging innovations in remittances model
- Review of Cash Management for BC operations

(e) Spreading Financial Literacy

- Organizing Financial Literacy Camps.
- Financial Literacy Centres in all Rural branches by appointing retired Bank employees.