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Addressing The Demand Side Factors of Financial Inclusion

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Abstract

The study evaluates the progress made in the field of financial inclusion and the impediments towards achieving universal financial inclusion .It finds that though Government has put in all efforts towards banking penetration and access but the demand side has not been addressed resulting in very little usage of the financial products . The products meant for the poor are just stripped down version of regular product developed for the urban educated masses .The study identifies the demand side drawbacks in the present model of financial inclusion and suggests ways and means to overcome them. In its attempt to address the demand side issues it studies the Global Financial Inclusion Models like BRADESCO of Brazil, MPESA of Kenya, Rakyat Bank Indonesia, Mzansi accounts of South Africa, Grameen Bank of Bangladesh etc to understand what makes them successful in their business.

Keywords: Financial Inclusion, Micro Credit, Micro Insurance, Weather Insurance, Financial literacy

Introduction

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to disadvantaged and low income segments of society .It ensures access to financial services and timely delivery of credit when needed by vulnerable and low income groups at an affordable cost *(Rangarajan Committee, 2008)*.Scope of financial inclusion includes –Savings , Affordable Credit , Payment/Remittances & Insurance

Why Do We Need Financial Inclusion

Financial Inclusion has emerged as a powerful tool for the socio-economic development. Research shows that well developed and inclusive financial system are associated with more rapid growth and better income distribution*(Honohan,2004)* .Egalitarian societies like Sweden and, Denmark have very high level of financial inclusion . Inclusive financing provides the poor people a window of opportunity for acquiring education ,initiating entrepreneurial ventures, learning new skills and purchasing income generating assets for better standard of living . This in turn accelerates the growth in national income and an even distribution of wealth.

Financial Inclusion also protects the poor during exigencies so that they do not slip into further poverty & distress .Direct benefit transfer to individual bank account ensures that social benefits reach the intended beneficiaries. Estimates say that at present only 16% of the government assistance reaches the poor beneficiaries. Inclusive Finance helps to replace product subsidies by cash subsidies which are easier to deliver & cuts down the administrative costs.

In summary, the availability of financial services when required brings confidence among the poor to meet the investment requirement, consumption needs and risk management. It helps them to effectively manage the small money they already have *(Rutherford, 1996)*

Background & Literature Review

<u>Financial Inclusion in Indian Context</u>

India is an emerging economy with an average growth rate of 7% per annum during the last five years. It is the world's 10^{th} largest economy and third in terms of purchasing power parity *(IMF report, 2014)*. It has a huge population of 121 Crores of which 270 million (22%) live below the poverty lines (*RBI annual report, 2012)*. They are mainly semi literate or illiterate and earn meager income through unskilled labor. Due to low & cyclical income they are not served by formal sources of finance which restricts them from entrepreneurship, value addition , learning new skills , developing market linkages or acquiring income generating assets to increase the income and break the poverty cycle.

In the context of rural India where 68.8% of the total population stays, the financial exclusion is more severe .Around 52% of this population is involved in agriculture but contributes to only 22% of the GDP *(National Labor statistics, 2009)*. They are financially excluded and work in unorganized manner and do not get institutional loan for small investment in fertilizer, pesticide, seeds etc to enhance the productivity. The loan requirement is met by the local moneylender at high rate of interest which leads to debt trap and unending cycle of poverty. As per Indian Debt Investment Survey 59th round, 43% of rural household continue to rely on informal finance through various forms of borrowing from- direct money lenders, agricultural inputs suppliers, landlords & unregistered microfinance institutions. In fact, borrowing from institutional sources has declined from 64% to 57% between 1980-1990 and 1990-2000(Burgess & Pande, 2003).

In India alone 560 million people are excluded from formal source of finance, a figure which is in tight correlation with the 41.6 percent (457 million) of the populace that still lives below the poverty line (US$1.25/day) *(NSSO data)*. As per 2011 census only 58.8% of the households are availing banking services. Of these 67.8 % are urban households and 54.4% are in rural areas.

The Government of India has constantly endeavored from its first five year plan onwards, to build a road map towards achieving 100% financial inclusion. The major steps taken in last five decades include – proliferation of credit co-operative banks, nationalization of private banks, formation of regional rural banks & National Bank For Agriculture And Rural Development with focus on rural expansion, starting lead bank schemes, mandating priority sector lending, opening of no frill account, simplifying Know Your Customer norms, promoting technology based banking solutions like Kisan Credit Cards and General Credit Cards. All these steps were aimed to increase banking penetration & bring more population under the purview of formal financial institutions.

The government also encouraged low cost innovative delivery models by linking the Banks to business correspondents, Self Help Groups, FMCG outlets & micro finance institutions. Overall emphasis is to provide access to unbanked population by bringing the bank at the doorstep and encouraging people to open new accounts. The focus is primarily on the supply side – Increase the banking penetration & access to bank accounts.

The supply side focus of the Government has led to a huge network of Scheduled Commercial banks, Regional Rural Banks, Co-operative Banks, Primary Agricultural Co-operative societies & Post offices in rural areas .As on 31st March 2013 there are 102343 branches of scheduled commercial banks of which 63% are semi urban & rural branches *(RBI annual report 2012-13)*. There are 154000 post offices of which 139040 are in rural areas. Also there are 14000 branches of rural co-operative banks and 98000 retail outlets of Primary agriculture credit societies at grass root level *(Basu, 2005)*. Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years) which includes bank outlets through BCs *(RBI Annual Report 2012-13)*

Not surprisingly, India compares favorably with other developing countries in terms of the average population served per bank branch, and the average geographical area served per branch. Average population covered per bank branch in urban areas is 12100 while same for rural branches is 17000.

However the Statistics of financial Inclusion in India (based on NSSO survey 59th round) reveals some disturbing facts about the impact of Government driven financial inclusion efforts:

i. 45.9 million of the total 89.3 million Farm Household (51.4%) are financially excluded from both formal and informal sources

ii. Of the total farmer household, only 27% have access to formal credit; one third of the farm households from this group also borrow from informal sources.

iii. Overall 73% of the farmer households have no access to formal sources of credit

iv. Marginal farmer household constitute 66% of total farm household. Only 45% of these households are indebted to either formal or informal sources of finance (same figure for small farmers is 51%, medium farmers-65.1% and large farmer-66.4%)

v. Only 20% of the indebted marginal farmers have access to formal sources of credit (same figure for medium farmers is 57.6% and large farmers-around 65%)

vi. Among non cultivators household nearly 80% don't access from any source of credit.

Although there has been a successful effort by banks to open new accounts for every rural household but these accounts are mostly dormant. The number of Basic Saving Bank Deposit accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013*(RBI annual report)*. A lot of new accounts were opened to receive government payments, transfers and subsidies. However once such payments were withdrawn there was no further transaction in the account. As per survey, only 20% of these accounts are active. *(www.developmentoutlook.org)*

This leads to the conclusion that increasing banking penetration and access does not guarantee the usage of the bank account. Account opening is just an entry point into the formal financial sector. The financial inclusion cycle can be completed not by just opening an account but increasing regular usage and linking with other financial services so that there is access to all financial instruments. Optimum utilization of account should be the target of banking service providers. Focus on demand side factors is also required while addressing the supply side issues otherwise financial inclusion will always remain a social obligation driven by public sector banks and not a business opportunity. RBI in its annual report 2013-14 has stated that after creating a robust infrastructure for access of financial services, the focus will be on increasing the demand and usage.

Demand Side Constraints

The demand side constraints can be classified as:

1 Self imposed barrier –Because of low & cyclical income the poor people believe that they have nothing to save after consumption.

2 Price barrier- The cost of banking exceeds the benefit derived by availing the financial services. This includes the opportunity cost also like loss of days wage for visiting the bank

3 Geographical barrier-Distance & working hours of the bank branches coincides with the labor hours. This dissuades people from visiting the bank since they have to take leave & also lose a day's wage.

4 Socio-cultural barrier –Bank staff are uncomfortable in dealing with the poor masses and this alienates them further.

5 Information barrier – The poor are unaware about the available financial services and their benefits.

6 Regulatory barriers –The identity requirement and other documentation requirement required by regulatory norms are not available

7 Products not meeting the requirement-Most of the products designed by banks are stripped down version of the existing products which doesn't meet the requirement of the poor.

Profile of Excluded Customers

The financially excluded consumers have certain unique characteristics which decouple them from the formal financial system in its current form. Knowing the customer profile is necessary so that product, pricing, delivery and communication methods match the customer's requirement.

1 Financial illiteracy: The financially excluded consumer has more often than not, a low awareness and understanding of the need for personal financial management and about the services and products provided by the formal financial system. .

2 Low and cyclical income: The consumers have a very cyclical and variable income pattern which is often linked to the agriculture cycle in

rural locations and availability of work in the urban areas which makes their adherence to fixed payment schedules impractical.

3 Minimal collateral: A focus on consumption expenses and reluctance or inability to create fixed assets due to low incomes and migrant lifestyles result in the financially excluded consumers often not possessing any assets which can be accepted as viable collateral against credit.

4 Lack of credit history: Financial exclusion results in the poor having no verifiable credit history which makes it difficult for banks and other financial institutions to authenticate their credentials while extending credit.

5 Absence of formal and verifiable identity: The financially excluded often have no means of proving their identity as the conventional means like driver licenses, voter identity card, passport, ration card and utility bills are not available to them.

6 General illiteracy: The high levels of illiteracy prevalent among the financially excluded especially amongst the rural population make them unable to comply with the complex documentation requirements of formal financial institutions.

7 Apprehension of bureaucracy: Their legacy of social oppression results in the financially excluded having an apprehension and fear of dealing with bureaucracy. The inimical attitude often displayed by the staff of financial institutions further alienates the poor.

7 Credit primarily for personal consumption: The typical credit requirements of the poor are mainly for consumption kind of expenses e.g. marriages, celebrations, medical emergencies etc. which makes it difficult for them to avail credit from formal sources.

8 Banking Access: Most of the banks are working from 10 am to 4 pm which coincides with the working hours of the poor people also. The banks are also located at long distances & by coming to the bank they have to forego a part of their daily wages. The cost incurred exceeds the benefit.

Objective of the Study

The study tries to find “the ways & means to increase the demand for financial services among the poor. Lower cost & scalability can be achieved when there is demand. The aim is to see that how can banks generate value for the products & Services so that low end customers are willing to avail them & pay for them. Such product and services should be delivered through user friendly channels leveraging the technology and integrated with financial literacy of the target group.

Study of Few Successful Global Financial Inclusion Models for Reaching the Unbanked

An article published in *Forbes India* titled “Profitable Models of Financial Inclusion around the world” (November 2010) examined the various models around the world and whether they would work for India .Some of the notable models mentioned are :

1 Bradesco in Brazil recruits existing postal agents and local retail store owners as banking Correspondents (BC) .They are member of local community and generates trust among the prospective clients .The correspondents are provided the basic banking software and basic training. Though the profit margin is low, the demand for agency is high because it increases the footfalls to the shop and opens up multiple revenue sources. The agents acts as interface between the financial institution and the end users (CGAP & Central Bank of Brazil, 2008)

The BCs existed since 1970 but the real boost came a decade ago when regulations were broadened to include a host of services which they could offer and eased several other restrictions .The model has grown very rapidly and payment of utility bills account for 75% of transactions through BCs. One reason why the BC model worked in Brazil is that the authorities established a strong business case for BCs. India has adopted the BC model but a large informal system for transactions have not been brought into the banking system so far .

2 MPESA innovative mobile transfer solutions has registered 13 million users(40% of adult population) in Kenya enabling them to transfer money without having to visit the bank .There is no bank account and

the mobile phone company acts as a conduit for keeping & transacting money. The mobile phone company acts as a repository for customer's money and allows them to transact. However it cannot use the money and neither pays interest to customer's .India cannot adopt this model because the mobile phone companies are not allowed to act as banking channels. Also the Microfinance Act of Kenya passed in 2006, allows microfinance institutions to accept deposits. However such deposit taking microfinance institutions have to compulsorily contribute to deposit protection fund.

3 In Mexico, Banco Compartamos showed that microfinance is business of scale and that private capital can help to achieve the scale. It believes that microfinance institutions can succeed by being extremely profitable to shareholders .It charges more than 100% interest rates but still it is successful because loan sharks charge even more. However in India this model would not work because such high prices would not be tolerated by the social structure.

4 Wal-Mart, the world's largest retailer. has expanded its business by providing financial products and services in Mexico .In November 2007, Banco Wal-Mart b ranches were opened in existing stores thereby avoiding the infrastructure cost of setting-up bank branches. As the largest private employer in Mexico and with nearly 2.5 million people in Mexico visiting its stores every day, the new bank had a sizeable, low-wage-earning and loyal population from which to recruit customers. Opening a Banco Wal-Mart account requires a minimum balance of less than \$5 while the competing banks require a minimum balance of \$100. However, Banco's interest rates on savings are only half that offered by other banks.

Wal-Mart's annual rate of consumer loans is around 75 percent while the rates from competing banks are about 100 percent. The Mexico remittance market is about \$23 billion (approximately), which the

bank is now trying to exploit through its partnership with a money transfer company, Moneygram International. Its other product offerings include debit and credit cards and loans of up to 50,000 pesos (about US\$3,500) for in-store purchases, thus promoting its retail sales.

5 In South Africa, the Central Bank launched no frill banking in 2004 with

negligible amount of deposit and five numbers of free monthly transactions .In 2009 there were 6 million No Frill accounts (Mzansi account) in a country of 32 million. However out of these 6 million accounts, only 3.5million accounts are active , the reason being that the accounts have been marketed as a savings product but what drives usage is transactions. India also has an equally bad experience in usage of no frill account with only 20% account being active.

6 In Philippines GCASH and SMART MONEY are the oldest mobile based money transfer and payment services using mobile phones

7 Bank Rakyat Indonesia has shown an exemplary growth in microfinance through expansion of branch & employees' network, innovative products, increased competency of staff through training and new recruitments. Micro Credit is one of the core businesses of the bank and it is the biggest micro lender in Indonesia. In 2013-14 lending to the number of micro loan account grew from 5.5 million to 6.5 million and micro deposits grew from 24 million savings account to 28 million savings account (BRI, Annual report 2013-14)

The Business Correspondent model has been adopted in our country in similar line as Brazil but it suffers from low financial viability because of low transactions which is limited to only deposits & withdrawals . A huge number of No frill account has also been opened but they suffer from lack of usage. In both cases demand, which can scale up the volume & revenues, is not there

Addressing demand factors will address the issue of achieving high volume & low cost which is the key to operate at the bottom of pyramid.

Addressing the Demand Side Factors

Demand for Financial services depends upon following factors:

1) Develop appropriate financial products & processes suitable for the poor Population
2) Create Financial Literacy & Awareness.
3) Improve Public Interface with Banks
4) Increase Accessibility
5) Provide Credit plus services.
6) Focus on Low Cost Operations

The above factors need to be addressed so that the target population can understand and access all the financial instruments as and when they require.

Before developing appropriate product & processes banks also need to define the target customers so that they are not lured towards financing the better off clients and make quick profit. In the dual pursuit of social ends and profitability, mission drift is very common. In Bangladesh, Grameen bank which is known for exemplary services in micro finance targeted the women from households with less than half acres of land. Bank Rakyat Indonesia which also succeeded in micro financing, targets household with less than half acres of land but the beneficiary members are men. The targeted beneficiaries should be identified clearly so that the benefits are not cornered by the rich segment of population.

Developing appropriate financial products

Savings Product

Presently all banks offer stripped down version of high end products to the low end customers. These products are neither required nor affordable to them. The target customer is poor with cyclical income and his ability to save is very less and hence he doesn't feel the need for a bank account. World bank Financial access survey(2013) has identified that the poor do not feel the requirement for banking because their income is very low which leaves them with little or No savings .The need can however be developed by transferring Government payments, social benefits , grants & subsidies through the account. The account can also be used for bill payment and remittances because seasonal migration is very prominent among rural poor.

Another problem identified is the cost of having an account which includes minimum balance norms, fixed annual fees, transaction fees etc. Since unbanked customers are poor, the nature of transactions in the account will be very small and frequent, which increases the cost per transaction. To address this issue the banks can consider having a small charge on transaction basis rather than asking the customer to maintain minimum balance in the account. Transaction charges received from customers will offset the costs incurred in managing the account. Since customers are poor there should not be any restrictions on payment & withdrawals.

The transaction cost calculated by the customer is not the nominal cost but the true cost incurred like travel cost, wages foregone, hidden payments to agents/banking staff etc so efficiency of services and minimal documentation requirement plays a major role in attracting the financially excluded customers . Lower the true cost more will be the demand.

Bank Rakyat of Indonesia allows poor customers to open an account with minimum \$1 or Rs 60 and a minimum balance of \$0.57 or Rs 27 and this has been a successful savings product. The total balance in all such accounts may add up to a substantial amount of low cost funds & improve the asset liability match.

It should be noted that individuals will open an account if the benefits from the account outweighs the cost. The benefits can accrue when access to a savings account helps in receiving remittances, government payments, social benefits, subsidies, wages , access to savings linked credit facility , money transfers etc. The account should open the door towards multiple benefits so that the benefits over rides the cost

While developing savings products for poor, banks must consider the four essential features: Design, Security features, Low transaction cost & interest rates

Low Cost Credit

Similar to saving the concept of micro credit needs to be promoted. This can be done either by banks or through specialized micro finance institutions supported by banks. Such micro credit should have flexible repayment system to take care of the cyclical income trends of poor customers. The higher rates in the range of 24% to 36% should take care of the flexibility offered in repayments. Bangladesh Grameen Bank & Bank Rakyat Indonesia devise loan product with small flexible weekly repayment .This suits the beneficiaries since they could pay in small amount from the meager income earned on daily basis.

The credit information should be shared between all MFI and banks so that they refrain from lending when the loan exposure is high. This will prevent over indebtedness and untoward social uprisings. In the absence of credit history, alternate payment behavior can be analyzed like payment of mobile bills, utility bills etc to judge the credibility of the customer. Lending to self help groups or joint liability group is another solution if credit history is not available.

In order to encourage all banks for microcredit the CRR can be reduced by 1% for banks who do micro lending. In Brazil, banks generally need to place 45 percent of **sight deposits** in reserve at the central bank at zero percent rate of interest. To promote micro finance, central bank permits banks to take 2 percent of the allocated 45 percent deposit and deliver micro loans at between 24 and 48 percent interest rate.

Barac Bank, Bangladesh practices integrated credit model. They provide training, inputs, and marketing assistance alongside credit.

A potential means of reducing default risk in rural finance which has recently caught the attention of the Government of India (GOI) is the establishment of a "warehouse receipts system." This involves farmers using their crops as collateral for post-harvest financing. However in that case warehouse receipts have to be recognized as legal instruments.

Private Banks which doesn't have outreach in rural areas should be asked to contribute indirectly by making micro lending obligation "tradable". The most Competitive lender would then be paid by less-well-placed banks to effectively take on their micro lending requirements for a price. Private Banks can also lend to specialized micro finance institutions for onward lending to the poor.

One of the most contentious issues in rural credit is the rate offered. Experiments by **Bank Rakyat Indonesia** and Grameen bank has shown that charging a rate which helps to recover the cost, leads to delivering quality product and services on a sustainable long term basis .Cost recovery also enables the banks to serve maximum number of unserved and underserved customers .However at the same time , there has to be all round effort to control the operational costs so that customers are not burdened with abnormal high interest loans which makes them averse to institutional finance. Charging market rates unburdens the customers from paying the hidden cost which is otherwise prevalent in subsidized loans.

Malegam Committee report (RBI, 2011) on microfinance suggests that lending by banks to microfinance institutions should be treated as priority sector lending. It also recommends, creation of a category of NBFC-MFI, transparency in interest charges, not more than two microfinance institutions can lend to one individual, setting up credit bureau, interest cap and margin cap on individual loans, establishment of proper system of grievance redressal & creation of social capital funds. The recommendations have been accepted by the RBI

Microfinance experts also recommend reducing minimum startup capital requirement to facilitate transformation of Micro Finance Institutions into NBFC & facilitate MFIs to raise debts and also mobilize savings with adequate safeguards.

Remittances & Bill Payments

Since the income of rural people is cyclical in nature they migrate to nearby towns and cities in lean season. They have to remit the income to the family members. At present the postal department money orders are most preferred but they are also the costliest because they charge almost 5% of the remittance amount. The 154000 post offices handle 110 million money orders across the country *(www.indiapost.org)* .There is tremendous scope of business in money transfers which banks and micro finance institutions can exploit. The cost & time required for money transfers can be reduced by utilizing the electronic fund transfer which is not available with India posts. Also mobile money transfers can be used since mobile penetration is very high among the poor people. The banks can tie up with mobile service provider to provide mobile money transfers. Collaborative model of banks & microfinance institutions can provide shared access to remittance platforms

In Kenya Safaricom offers money transfer and bank account services using mobile phones. It allows subscribers to deposit and withdraw money via Safaricom's airtime-sales agents, and send funds to each other by text message (SMS).In India, laws don't allow mobile service providers to accept deposits but money transfer is allowed by linking it with bank accounts.

Micro Insurance

Insurance protects the savings and the assets created under credit program from being wiped away by exigencies like crop failure, health issues, and accidents. The concept of micro insurance need to be promoted because the poor people cannot afford to pay high premium. Risk cover through insurance is required for the poor because they are more susceptible to the vagaries of nature. Exigencies are more common in poor households and lack of financial support aggravates the problem. The proportion of people having some form of life insurance cover stands at 10 percent and people with any form of non-life insurance cover stands at less than 1 percent. There are only 3.1 policies per thousand people in India (RBI NSSO survey 59^{th} round).The total insurance (life and non-life) penetration, in terms of the ratio of insurance premium as a percentage of GDP increased from 2.32 in 2000-01 to 5.10 in 2010-11*(Insurance sector in India ,April 2014 Industry report)*. The life insurance penetration as a percentage of GDP stood at 4.40 in 2010-11 while the non-life insurance penetration remained at 0.71 during the same period. In other words, there is vast untapped potential as regards insurance penetration.

Given the extremely low uptake of insurance by the poor who are often the most vulnerable, the insurance firms need to design appropriate low cost products and create new distribution channels to reduce their costs, simplify processes and increase outreach. Insurance firms need to balance their need for risk-aversion with the huge market opportunity.

The partner-agent model is perhaps the best suited to address the outreach challenge as it enables the insurance providers to collaborate with NGOs, MFIs, SHG etc to distribute the insurance products without incurring huge costs to create distribution networks. Innovative products which combine risk cover with savings will need to be created. Group insurance can be thought for Self Help Groups.

Apart from traditional life insurance, other non-life risk covers which are needed by the rural population include crop and weather insurance, livestock insurance and health insurance. New products will need to be designed as the existing insurance products are often not suited to the needs of the poor e.g. crop insurance products are often predicated on yield estimation based on samples. Weather Index insurance can help the banks to provide crop loan to non irrigated areas

ICICI has experimented with the weather insurance policy where the claim is settled based on transparent index. The index is prepared by assigning weights to critical time period of growth. The past weather data is mapped to this index to create a normal weather index. The actual weather data is mapped on to the normal weather index to arrive at actual index level .If there is any deviation between the normal weather index and actual weather index then compensation is paid to the farmer on the basis of pre agreed formula. The normal weather index is always tested against historical weather data to check whether the payout adequately compensates the losses suffered by the farmer. The premium is calculated based on expected losses and volatility of historical losses and management expenses.

Financial Literacy

As defined by the Reserve Bank of India (RBI), financial education is "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being." Financial literacy helps the prospective customer to take informed decision to match his requirement taking into consideration the risk implications.

The effort to develop tailor made products should be accompanied by creating awareness about the benefit of availing financial services. Financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. This can be done in a collaborative manner by all banks, NBFCs, microfinance institutions NGOs and self help groups so that costs are shared by the various stakeholders. The regulator can also take a lead role in initiating financial education .It will create confidence among the unbanked customers by highlighting the advantages and safety features of various products. The Government has also set up the Financial Inclusion Fund whose objective is to support "developmental and promotional activities" with a view of securing greater financial inclusion, particularly among weaker sections, low-income groups and in under developed regions and hitherto unbanked areas.

In the realm of financial literacy partnership and healthy competition between the services providers should be encouraged. All financial institutions can co-operate in driving financial literacy which will hasten the movement and also minimize the cost burden .Corporate can also play a key role in literacy drive through "Teach India Campaign" as a part of corporate social responsibility.

Improved public interface

A less than welcoming attitude displayed by the staff of the formal financial institutions towards the financially excluded creates a deep sense of alienation and makes them reluctant to approach the formal financial institutions. The financially excluded consumers expect to be treated with respect and empathy by the financial institution staff. Efforts should be made to appoint local people as the frontline staff in rural banks. If required recruitment rules in public sector banks should be amended to accommodate local flavor. Behavioral training also needs to be imparted to the staff so that they are conscious about their responsibilities towards the customers irrespective of whether they are rich or poor. Training the Business Correspondents and self help groups is also a prerogative.

Increased Accessibility

Typically the financial institution offices operate during fixed hours (.i.e. 1000 – 1500 hours) on certain days of the week. The offices are likely to be located within large villages and towns. As the financially excluded are more likely to be daily wage workers, they have to take leave and forego the days' wage when they visit the bank. Even if they are not daily wage workers, the excluded consumers will often find it difficult to leave their daily activities to visit offices during working hours. Contrast this rigidity of the formal sector with the flexible access provided by the informal financial system e.g. money-lenders, which the financially excluded are typically used to. The financial institutions need to remove the physical access impediments to enable the financially excluded population to access the financial institutions as per their life-style convenience. This can be done by door step banking and also by increasing the process efficiency so that visits are less. It is to be noted that more the visits to the bank, the true cost of transaction increases and the inclination towards formal banking wanes.

Credit Plus? Assessing Integrated service Provision

Rural Credit & Rural Banking needs to viewed in the wider context of rural economy There are organizations like BRAC Bank , Bangladesh which go beyond financing the poor by providing opportunities and interventions in the form of education , business advisory ,entrepreneurial encouragement , marketing assistance , health hygiene and social issued .The banks become a total partner with the village poor

Credit should be provided not only to the Agricultural producers but also to the agricultural input suppliers and agricultural produce processors & marketing agencies that cater to the demand of the producers. Institutional credit to farm sector can be subdivided into three subsystems –a) Agriculture production subsystem (APS) b) Agriculture Input subsystem (AIS) c) Agriculture Produce Processing & Marketing subsystem. Institutional finance for APS generates demand for inputs, farm assets, and services and thereby influences backward linkage of APS with AIS. This linkage is facilitated through institutional finance for AIS. This sub-system is encouraged to stock and supply inputs and therefore can forge its forward linkage with APS. Institutional finance for APS also creates demand for services from AMPS and results in forward linkage of APS with AMPS. These linkages are essential for increasing agriculture productivity, production and value addition which in turn increases the viability of rural financial institutions through economy of scale, higher loan recovery and consequent higher recycling of funds.

Low Cost of Operations & Delivery

Maintaining low cost is a key criterion for generating high demand and to achieve high volume and scalability. In the context of financial inclusion the last mile coverage of financial services is major challenge in a country like India with huge geographical spread and poor infrastructure. The challenge acquires further significance since the delivery cost has to be kept low because poor people cannot pay exorbitant prices. The main challenge is to develop or leverage a trusted network which people would like to rely upon and developing adequate technology which will guarantee safety of data & money. The cost of financial services needs to be benchmarked against the price paid to money lenders. Costs can be reduced and scalability challenges can be addressed through developing floating subsidiaries backed by technology solutions which are reliable, convenient & safe. Tie up with NGOs, social entrepreneurs, specialized microfinance institutions, self help groups, FMCG outlets are ways & means to share the resources, infrastructure & capabilities and scale up the business. For the third parties it will be a source to generate multiple revenues and increase footfalls in the outlet. Locally relevant resources & capabilities are needed to be leveraged because the company resource and capabilities have evolved in very different environment and may be only partly relevant in poor country context. (Carvalho Alexandre D.et al, 2010)

Third party delivery models needs to be backed by secured & reliable technology .Technology addresses the scalability challenges by reaching maximum number of customers across uncharted territories. Government policies have laid a strong foundation wherein technology has helped to spread the reach of financial services. Use of Information & communication technology has helped banks to reach the customers wherever they are at a lower delivery cost.

Conclusion

A 'multiple product access platform' supported by financial education and easy-to-use technology, well spread self-service kiosks and a collaborative delivery model backed with Business Correspondents, MFIs and SHGs , FMCG companies can address the demand side issue effectively.

Research studies have shown that poor households also have unique ways to save, borrow, spend & manage risks. However such savings & borrowings are from informal sources. Savings in shady ponzi schemes are more prevalent among the poor in rural areas which is evident from various scams being exposed. The need of the hour is to channelize the savings to the formal sector and link it to other financial services to make it more attractive. The aim is to search for ways & means to significantly alter the ways in which poor people manage their finances.

The poor are constantly borrowing, lending, saving, withdrawing, using, and losing money through contingencies and calamities. They need someone to help them with all these transactions. Composite-service providers are preferable in as much as they reduce the number of agencies with which poor households must deal, thus reducing transaction costs *(Morduch; Rutherford, 2003)*. Moreover, if a composite agency has a good internal MIS; it can use the savings history of a household as"collateral" for loans. Similarly, if the same agency provides insurance for lives or livelihoods, it will be more willing to give a loan.

The bankers need to ensure that the poor is not dependent upon one product but he avails a basket of financial services which will automatically translate into total financial inclusion. The formal sector needs to provide the convenience & flexibility which is provided by the informal sector while adding the promise of reliability & continuity. Men & women from rural households require a wide range of savings & loan services to support the diverse consumption need and investment opportunities.

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