

Introduction

The banking industry has shown tremendous growth during last few decades. Despite making significant improvements in all areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the under privileged sections of the society into the fold of basic banking services. In this respect, there could be multiple levels of financial inclusion and exclusion. At one extreme, there are customers who are actively and persistently courted by the financial services providers and who have at their disposal a wide range of financial services and products. At the other extreme, there are people who are denied access to even the most basic financial products. Keeping in view the above, the concept of "Financial Inclusion" has come into fore to enable to cover the financially excluded category of customers.

Few recent ideas have generated as much hope for alleviating poverty in low-income countries as the idea of financial inclusion / micro finance. Financial inclusion concerns itself with aspects such as delivering financial services to the unbanked population, innovative delivery systems and channels to expand banking reach into unbanked interior areas. It promises to combat poverty through finding ways to cost-effectively lend money to poor households. Poor

Financial Inclusion and Financial Literacy: Andhra Bank's Initiatives

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households are typically excluded from the formal banking system but the micro finance movement exploits new contractual structures and organizational forms that reduce the riskiness and costs of making small, uncollateralized loans. These efforts are hogging the limelight for quite some time now with almost all nations recognizing their importance and embedding them into their overall strategy. Success stories are being written around the world, from Bangladesh to India to Indonesia and Kenya.

Use of Intermediaries

One of the ways in which access to formal banking services has been provided very successfully is through the linkage of Self Help Groups (SHGs) with banks. SHGs are groups who get together and pool their savings and give loans to members. Usually there is an NGO that promotes and nurture these groups. National Bank for Agriculture and Rural Development (NABARD) has played a very significant role in supporting group formation, linking them with banks as also promoting best practices. The SHGs are given loans against guarantee of group members. The recovery experience has been very good and there are currently 2.6 million SHGs linked to banks touching nearly 40 million households through its members. Banks provide credit to such groups at reasonable rates of interest. In some SHGs, credit is provided for agricultural activities and other livelihoods and could be several times the deposits made by the SHG. Most of

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SHGs have been linked to public sector banks in view of the latter's dominant presence in the rural areas. The internal impact studies have clearly shown that the programme has lightened the burden of life for an average member of an SHG as it has enabled increase in assets in rural house holds, improved saving patterns and enhanced employment rates.

The studies also reveal that involvement in a group has significantly contributed in improving the member's self-confidence, the feeling of self worth, communication levels and also their ability to resist the social evils. The present state of SHGs in India represents a strong, devoted and unassuming rural clientele base whose aspirations are growing. SHG - Bank linkage programme is gaining increased acceptance among NGOs and bankers. Continuation of the programme to cover at least one third of rural poor population by the year 2008 is envisaged by NABARD. SHG - Bank linkage programme will be a major way of banking with the poor in the coming years. At least 25,000 bank branches, 4000 NGOs and 2000 Federations involving over 1,00,000 personnel of these institutions would have to be associated for scaling up and bank linkage of one million SHGs.

Micro finance and Financial Inclusion - Implementation in Andhra Bank

The State of Andhra Pradesh has been a great success story in micro finance and Andhra Bank plays a significant role in this story. The bank has 1289 branches spread all over the country and 918 branches are located in Andhra Pradesh. The rural and semi-urban branches constitute 59.89 percent of the total branches giving an ample scope to be a forerunner in helping the poor and play a pivotal role in the mission of financial inclusion. The huge network of branches in rural / semi-urban areas

provides a natural edge for the bank besides its robust financials and dedication and committed workforce.

Opening of No Frills Accounts

Possessing a bank account is a minimum requirement for any citizen so that banking channels are kept open to him. The bank has so far opened 1,41,826 no-frills accounts, with average balance of Rs: 430/- per account and Rs: 5/- for opening of account. A pilot scheme for achieving 100% financial inclusion by providing no-frills accounts has been implemented in Srikakulam district in Andhra Pradesh and Ganjam district in Orissa, where we happen to be the lead bank, in collaboration with other banks. This was a gigantic task and required a lot of coordination amongst banks, educating the customers, making due identification, etc. The task, however, was successfully completed by March 2007. It is proposed to extend the scheme to all other districts in the State of Andhra Pradesh.

General Purpose Credit Cards

Access to minimum credit is increasingly being seen as a "right" of the customer, rather than a "facility" sanctioned by banks after so much of scrutiny. The bank has initiated steps to cover households to meet the credit needs for economic activities under the existing schemes and also to initiate steps for sanction of "General Purpose Credit cards" to the eligible and needy. This is expected to materialize at the earliest.

Strengthening of SHGs

SHGs are the most important vehicles of financial inclusion. The bank is in the forefront of SHG movement in the country with much emphasis in Andhra Pradesh. The bank also aims at preparing the individuals to avail viable loans by providing them necessary training to secure



Self Help Groups financed by bank

purpose based finance. Therefore, the SHGs and individual members are being trained in nine Rural Development Institutes of the bank. All the SHGs who have paid their bank loans promptly will be eligible for interest relief from Government of Andhra Pradesh i.e. the ultimate interest paid by the SHG is only 3% per annum. It is aimed to disburse Rs: 1000 crore during this year. The bank has also introduced some innovative systems for the benefit of members of SHGs like SHG Credit Cards, Janashree Bima Yojana Scheme (life cover), Swasthya Bima Yojana scheme (health cover), etc.

Debt Swapping

To provide institutional credit to the indebted members of SHGs to repay loans taken from non-institutional lenders (private moneylenders), debt swapping scheme was introduced wherein SHGs will be given an additional loan. The objective is to bring down the interest burden of the indebted farmers and SHG members from as high as 48% in some cases to 9% p.a. In case of SHGs, this may go further down to 3% p.a. as the State Government allows interest subsidy for these additional loans. This year, it is proposed to implement the scheme for SHGs in two villages each under service area of the bank branches. The bank has adopted debt-swapping scheme to farmers also besides covering SHGs.

Use of Technology in Financial Inclusion

The banks has installed several ATMs in rural and semi urban areas. However the constituents coming under financial inclusion are mostly illiterate and would not be in a position to use PIN numbers, etc. To facilitate the operation of ATMs by these people, for the first time, the bank has introduced biometric ATMs and also mobile ATMs carrying biometric facility. This is a modest

beginning and will pave the way for more and more people getting benefited by this initiative.

Use of Smart Card Technology for Payment Old Age Pensions and Wages Under REGP

The bank has also participated in a pilot project in Warangal district of Andhra Pradesh along with six other banks in payment of wages under National Rural Employment Guarantee Programme & Pensions under Social Security scheme through "smart cards": Six banks namely Andhra Bank, State Bank of India, State Bank of Hyderabad, Andhra Pradesh Grameena Vikas Bank, Union Bank of India and Axis Bank have taken up six mandals in Warangal district and are implementing the project with the support from Rural Development Department, Government of Andhra Pradesh.

Connectivity is an issue while payments are made on line through cards. However, it has been overcome since business correspondents are doing the payments offline and transmitting the data when connectivity is available.

Use of Intermediary

The bank is enrolling suitable organisations as business correspondents. These business correspondents will in turn appoint Customer Service Points (CSPs) for payment at village level. At present, Village Organisation leaders are being utilized for this purpose. (around 10-15 SHGs federated at village level is called village organization) The correspondents also act as a facilitator for provision of micro finance, savings, and other financial services of the bank and financial Institutions.

Others

The bank is offering micro insurance products like group

Bio-metric ATM inaugurated by Dr.Ramakrishnan, CMD-Andhra Bank



Mobile ATM of Andhra Bank

insurance, life insurance, insurance to farmers to Pattabhi Agri Cards, insurance to SHGs, etc.

The bank has selected 21 'Model' villages for overall development and 100% coverage of SHGs

The bank, in coordination with the state government, has initiated necessary steps to bring the tenant farmers under one roof (Rythu Mithra Groups- RMGs/Joint Liability Groups-JLGs) to enable them to access institutional credit.

The bank has initiated steps in mapping indebtedness of the farmers and implementing m through Prime Minister's relief package to farmers in 16 districts in Andhra Pradesh.

Future Plans of Andhra Bank

1. To extend the smart card scheme to all our lead districts viz. Srikakulam, Guntur, East Godavari, West Godavari, Ganjam and Gajapathi districts in First Phase and to cover the remaining districts in Andhra Pradesh by March 2009.
2. To give loans through smart cards to the farmers and other weaker sections.
3. To install more biometric ATMs in rural and semi urban areas.
4. To open exclusive Micro Finance branches
5. To introduce "Mobile" bio-metric ATMs.
6. To open Financial Literacy centers in all six Lead Districts by March 2008.
7. To finance more number of Urban Self Help Groups.
8. To implement total financial inclusion project in selected slums in urban areas.
9. To cover all SHGs under Micro Insurance by March 2009.
10. To cover all Tenant Farmers in service area of the bank through Joint Liability Groups (JLGs) /Rythu Mithra Groups (RMGs in AP).
11. To develop 'Model' villages in each of 22 districts in Andhra Pradesh

The Experience as "Convenor-State Level Bankers' Committee" in Andhra Pradesh

First Step

In the Annual Policy Statement for the year 2006-07, the RBI Governor announced that "SLBC Convenors in all States / UTs advised to identify at least one district in their area for achieving 100 percent financial inclusion by providing a "No frills" account and a "General Purpose Credit Card (GCC)" on the lines of the initiative taken in Pondicherry.

As a first step, State Level Bankers' Committee of Andhra Pradesh has selected Srikakulam district for achieving 100% financial inclusion by providing "No-frills" accounts in the first phase and later to implement other parameters i.e issuing General Purpose Credit Cards, strengthening SHG financing, micro insurance, etc. SLBC conducted several round of meetings with controllers of banks to arrive at a consensus on modalities for implementation of the scheme and to review the progress.

Profile of Srikakulam District

Srikakulam district is selected for implementation of financial inclusion scheme. Srikakulam district is one of the backward districts of A.P with lowest per capita of Rs.7,568/- which is far less than per capita income of the state which is Rs.10,634/ for 2002-03. It is located on the northeastern part of AP. The total area of the district is 5837 sq.kms. There are three revenue divisions, viz., Srikakulam,, Palakonda and Tekkali with 38 mandals comprising of 1870 villages of which 1757 are inhabited. There are 11 urban units in the district, of which four are municipalities and seven are notified as major panchayats and 1053 are notified as minor gram panchayats.

As per 2001 census, the population of the district was 25.38 lakh of which rural population is 22.59 lakh. The female population is comparatively more inasmuch as the district has 1014 females for every 1000 males as against the state average of 973 females for every 1000 males. The literate constituted 48 percent of the total population. The literacy rate among males and females is 58 per cent and 38 per cent respectively. The total geographical area of the district is 5,83,702 ha. The net area sown at 268316 hectares formed 45.97 percent of the total geographical area of the district. The total area under forestry is 70,841 hectares.

Barriers to Financial Inclusion

There are several barriers to financial inclusion, some are characteristics of service providers and some are of customers. The following are the characteristics of financial service providers which add to financial exclusion:

- ✦ **Banking network:** There are no bank branches in remote areas/tribal areas and difficulties in closure/mergers/shifting of bank branches which were hitherto operated in tribal areas / remote rural areas.
- ✦ **Hours of operation of bank branches in rural areas:** Timings are inconvenient for the poor people as they have to go for farm operations (or) go to wage earning. In that case visiting branch during daytime would mean loss of wages for a day.
- ✦ Lack of information about the financial services.
- ✦ **Restrictions at bank:** Personal identification, minimum balance, price of the product, technologies adopted at branches some times restrict the people.

Problems Encountered in the Initial Stages

- ✦ **Social & Economic position:** Low-income people normally do not feel the need to bank as the transaction carried out by them is mostly in cash that too with low amount.
- ✦ **Information:** Many times people do not want to disclose the information which would be required for accessing any financial service.
- ✦ **Identification/Introduction:** Poor people, mostly, do not have any identification / introduction, which is accepted by banks to open an account (or) access other financial services.
- ✦ **Financial literacy:** Lack of understanding of financial services and the operations to be carried out is also a hindrance.
- ✦ **Absorptive capacity:** Poor people do not have much absorptive capacity for all the financial services.
- ✦ Need for different financial services.
- ✦ **Large geographical spread of customers:** The spread of customers is very thin which makes the operation of reaching out to them a costly affair.

- ✦ **Timings:** The poor have the capability to engage in micro-savings and would require withdrawals at their convenience. The timing of these transactions does not necessarily coincide with bank branch timings. They will not be available in the daytime, as they will go to work. Only in evening (or) in early morning, people are available. In such scenario, at times, it becomes a costly proposition for rural people to forego a day's income and instead go to a bank branch during the day to carryout the banking transactions.
- ✦ Lack of habit in the rural population to keep account of inflows and outflows.
- ✦ Migration of the poor families to other areas for work.

Broad Operational Guidelines Followed in Srikakulam District

Allocation of Areas

As per 2001 census reports, there are 5,82,377 households spread in 1865 revenue villages and six municipalities. Allocation of areas among the banks was made based on erstwhile service area concept in rural areas. Whereas in urban areas wards are allotted to bank branches depending upon the locality and proximity.

Household Survey

- ✦ Each and every household was surveyed. Banks conducted the survey by their own staff
- ✦ Village Committees are formed and their services are utilized for completing the survey
- ✦ Help from NGOs and other organizations was sought and details of existing account holders were collected and the number of persons for whom accounts are to be opened were estimated through the survey.
- ✦ District Administration of the State Government has issued instructions to the village officers and banks have taken the assistance of village officers in conducting survey.
- ✦ Some banks have engaged unemployed youth, on payment, for family survey and for help in opening of accounts.

Publicity

Wide publicity was given in the district on the scheme. Common posters and pamphlets were printed in local language on the subject i.e. financial inclusion. Posters were displayed and all banks in all villages distributed pamphlets.

Opening of No Frills / SB account

- ✦ No frills / zero balance savings bank accounts are opened to the eligible persons.
- ✦ A team of officials from the banks conducted account-opening campaigns with photographer.
- ✦ Electro photo identity cards/ Ration cards issued by the Government were taken as identity of the person and verification of address was done with the help of neighbours.

- ✦ As a token of having accepted the opening of account, the inspecting officials issued an acknowledgement slip to the customers.
- ✦ This slip was used for collection of passbook from the bank at a later date.
- ✦ For identified persons, photos are taken on the spot. The cost was born by the banks. Passbooks for the newly opened accounts are made available to the account holders on the subsequent days in the village itself.

There was good coordination among banks and the district administration of the State Government in the district. Andhra Bank, as the Lead Bank in the district, took initiative to complete the process of opening of SB accounts.

Progress Report on 'Financial Inclusion' Scheme – 100% coverage in Srikakulam District (As on 31.03.2007)

Total number of households in the district	: 5,82,377
⊙ Total number of households already having bank accounts	: 3,65,702
⊙ Total number of households to be covered under the scheme	: 2,16,675
⊙ Number of households covered so far (upto 31.03.2007)	: 1,96,578
⊙ Total No. of households (cumulative) covered so far	: 5,61,980
⊙ Percentage of households covered so far	: 96.49 %*
⊙ Number of households yet to be covered	: 20,097
⊙ Total No. of bank branches in the district	: 136
⊙ Total No. of revenue villages in the district	: 1865

Note (*): 100% coverage could not take place (a) due to migration of certain families in search of employment and (b) lack of interest in opening accounts by some of the households. However it is declared as 100% coverage, and it is open to other members to open accounts as and when they are interested to do.

Further, SLBC in Andhra Pradesh has decided to implement the scheme of providing "No-frills accounts" covering 100% of families in all the 22 districts (Except Hyderabad) in the State by June 2008. Time schedule is given for each district to complete the process. It is also decided to implement all other parameters of financial inclusion by June 2009 in the State i.e issue of General Purpose Credit Card (GCC), defaulters cleansing mechanism, strengthening SHG lending, appointment of Business Facilitators / Business Correspondents, information technology, connectivity, insurance products, coverage of tenant farmers / share croppers, mapping indebtedness of the farmers and to identify the un-indebted farmers, etc.

Setting up of "Financial Literacy – cum-Credit Counseling Centre" on Pilot Basis

The Reserve Bank of India advised State Level Bankers' Committee convenor banks to set up, on a pilot basis, a financial literacy-cum-counseling centre in any one district, and based on the experience gained, to ask the lead banks concerned to set up such centres in other districts. As Convenor, State Level Bankers committee in Andhra Pradesh, Andhra Bank took initiatives to establish "Financial Literacy-cum-Counseling centre" in Srikakulam district, where Andhra Bank is the Lead Bank. The centre will be inaugurated shortly, during October 2007.

Brief Functions of the Financial Counseling centre:

1. Educating the weaker sections about the benefits of financial services/financial inclusion, which has impact on economic conditions of the people and also on the economic growth of the country.
2. Making people aware of various schemes of the financial institutions including credit schemes like newly introduced debt swapping scheme to farmers, SHGs and various government sponsored schemes and to inculcate the habit of savings and explain about the advantages of micro savings, insurance, etc.
3. Helping the people in opening savings bank accounts. Make them understand of financial services and the operations to be carried out. Building awareness about the services rendered and various products of the bank.
4. In coordination with the rural development institutes of the bank and Government, the counseling centre will conduct financial literacy campaigns in rural areas and urban slums. Conducting farmers meets with the involvement of "Subject Matter Specialists" from Agriculture University / Department of Agriculture on various technical matters relating to agriculture like, vermi composting, pesticide management, fertilizer mixtures, horticulture crops, dairying, bee keeping.
5. Conducting awareness camps to the members of SHGs, Rythu Mithra Groups, Tenant Farmers, etc.
6. Organizing market awareness camps for procurement and marketing of Agricultural produce.
7. Explaining to the people in rural /semi urban, including urban slums, about the various deposit schemes and various credit products of the bank in the campaigns.
8. Facilitating training of people in the rural development institutes of the bank and Government on various economic activities and capacity building.
9. Arranging workshops / seminars / village fairs, etc. in selected places by inviting eminent personalities, agriculture scientists, etc. to explain the bank's schemes / services.
10. Selecting popular – burrahkatha / play-let groups of local area and send them to service area villages of bank to give their performance along with bank's schemes in selected service area villages.
11. Receiving applications from weaker section beneficiaries and send them to the bank branches concerned for consideration.
12. Maintaining liaison with the Government departments and banks under the guidance of the Lead District Manager.
13. To start with, the centre will look after the applications and other work relating to the bank and later it will be extended to other banks.
14. Any other matter relating to financial inclusion.

Role of the Centre in Future

1. The services of the centre will be extended to all banks in future.
2. In coordination with all banks, the centre will conduct the credit counseling camps at various centres in the district.
3. The centre will facilitate the weaker sections to open accounts in banks nearer to their area.

Financial Inclusion - Action Plan for Banks

Following action points are suggested for banks for achieving greater financial inclusion.

- ✦ Banks to replicate the model of micro credit delivery to farmers and artisans through NGOs, SHGs, and farmers clubs selectively.
- ✦ Banks to use the Business Correspondents/ Business Facilitators models for enhancing the capacities of existing branches for increasing outreach with proper care. They can use this model properly assessing their capabilities and reputation to avoid any problem for the banks at a later stage.
- ✦ Banks to use of Information technology (IT) based solutions like smart cards extensively to facilitate offsite banking. A fully IT-driven system would make the bank branches more effective and cost efficient. Use of IT based solutions like ATMs, mobile ATMs, debit and credit cards, smart cards will result in greater financial inclusion.
- ✦ To provide banking services at far flung areas where the banking network is weak. Banks to initiate action to convert the primary multiple societies as their agents to retail financial products in the rural areas.
- ✦ Banks together with NABARD to actively engage themselves with facilitation of group formation and group linkage for savings, deposits, and other financial services like insurance.
- ✦ Banks to take up capacity building programmes for branch managers, SHGs, NGOs, local persons and BCs. RBI and NABARD also to think of providing training programmes to convert traditional bankers to doorstep bankers.
- ✦ Banks to expand insurance linked deposit and credit products.

- ✦ In light of criticisms on recovery procedures, etc. there is an increased need to improve financial transparency and governance issues.
- ✦ The walls between the micro finance community and the broader world of financial community needs to be removed to ensure greater efficient delivery of micro finance.

Conclusion

While the levels of globalization increase, more economic wealth is created and distributed. The challenge for the national government is to ensure that the benefits of globalisation are equitably distributed amongst population so as not to cause large scale social and economic disruptions. This is where the concept of "Financial Inclusion" assumes an increasingly greater importance. Banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of "bottom of the pyramid" 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. Even the relatively low margins on high volumes can be a very profitable proposition.

Financial inclusion can emerge as commercial profitable business and can truly lift the financial condition and standards of life of the poor and the disadvantaged. We as bankers have a small but significant role to play in this unfolding of future story of economic growth and distribution and we shall strive to achieve the set goals.

Banks, Financial Institutions, MFIs, NGOs, etc. desirous of purchasing this special issue, in bulk for distribution among their constituents may contact the Editor, CAB Calling at cabcalling@rbi.org.in / principalcab@rbi.org.in