

# Financial Inclusion and Financial Literacy: Union Bank's Initiatives

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## Introduction

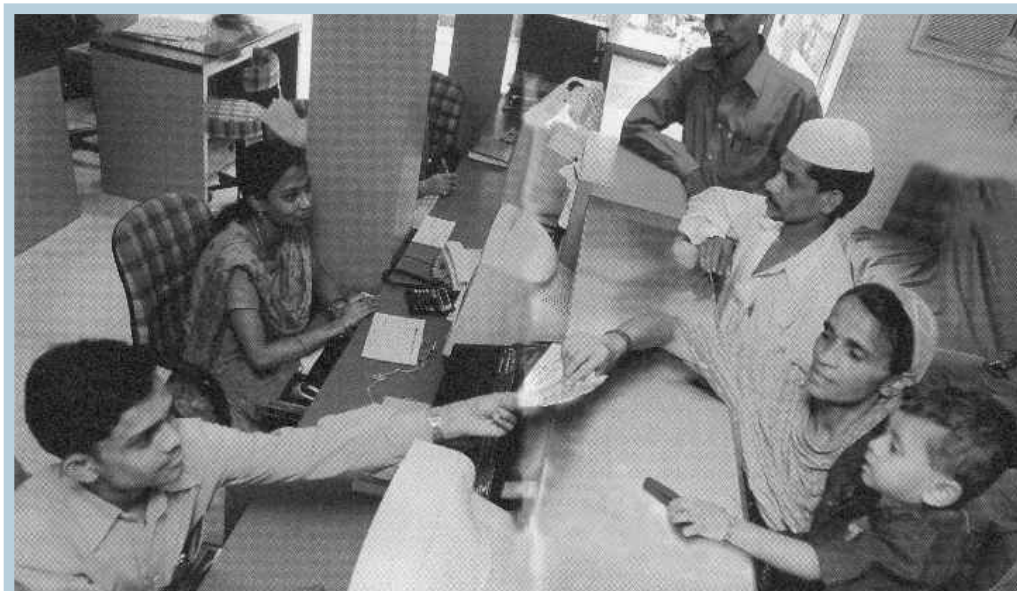
India occupies only 2.4 per cent of the world's land area but supports over 16 per cent of the world's population. About 70 per cent of the Indian population lives in villages. There are divergent demographic patterns, living standards, education levels and income levels as parameters of economic development. The rural India is yet to see the light of development and the results of planning process. The divide between the rich and poor is wide.

On one hand, due to liberalization, privatization and globalization of Indian economy, there are sea changes in the banking field. While on the other hand, besides profit, social responsibility is also one of the prime agenda of commercial banks. The fact remains that the country cannot progress unless and until the basic infrastructure facilities reach to each and every citizen of the country. One of the important purposes of Indian planning is socialism and upliftment of poor. The downtrodden and

poverty ridden mass has been excluded socially and financially even in independent India when planning and development process was basically meant for them. They should have been the beneficiaries of development.

The banking sector, despite the fact that it has 67,000 branches, does not lend to large sections of the Indian people. The average population per

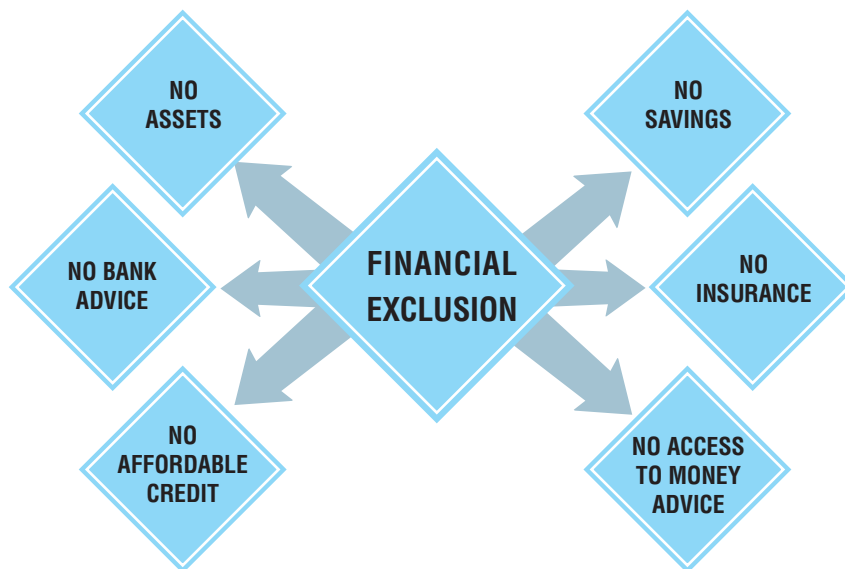
branch office is about 16,000. It is estimated that only 27 per cent of the cultivators have access to institutional credit. About 22 per cent of cultivators get credit from money lenders and the remaining 51 per cent does not get any credit at all. Hence, financial inclusion drive is necessary which aims at reaching out to more people who deserve credit and who cannot access credit.



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## Financial Inclusion

In the above background, "Financial Inclusion" is a must as it creates opening for other types of inclusions. The development process starts with reach of financial services. As per latest available report, the number of bank accounts per 100 population is only 31. The number of accounts per 100 adult population is only 59. As against such figures, the financial inclusion in developed countries like the U.K. is 90 per cent. There is, therefore, need for greater financial inclusion and to have bank accounts and infrastructure services. Before we examine financial inclusion, let us have a look at the implications of financial exclusion which is captured in the following diagram:



The concept of financial inclusion in banking scenario is delivery of banking services at an affordable cost to vast sections of disadvantaged and low-income groups. Banking services include credit, savings, insurance, payments and remittances which are essential and should be made available to the entire population without any discrimination. Financial inclusion is not only for social growth but a profitable proposition for banks.

There is a vast untapped market in India and the banks can reach out to cater to their financial needs. It is, therefore, imperative to roll out an action plan to cover the highly excluded areas / regions in a very definite, time bound manner. Hence the overall strategy for financial inclusion, especially amongst the poor and disadvantaged segments of the population, should ideally comprise of

- \* Ways and means to effect improvements within the existing formal credit delivery mechanism.
- \* Suggest measures for improving the credit absorption capacity especially amongst the marginal and sub marginal farmers.
- \* Evolve new models for extending outreach.

- \* Leverage on technology solutions to facilitate large scale inclusion.

## Initiatives by Union Bank of India

In the mid-term review of Annual Policy Statement for the year 2005-2006, the Reserve Bank of India has recognized concern in regard to the banking practices that tend to exclude rather than attract vast sections of populations. In keeping with the directives of the RBI to banks to review their existing practices to align them with the objective of financial inclusion, Union Bank of India has taken the following initiatives:

### Introduction of "No Frills" Accounts

With a view to achieve greater financial inclusion, the bank is making available a basic banking "no frills" account either with nil balance or very low minimum balance as well as charges that would make such accounts accessible to vast sections of population.

### Introduction of General Credit Card / Bhumeen Green Card

With a view to liberate rural folk from the clutches of money lenders and to provide easy loans with all necessary flexibility the bank has introduced General Credit Card scheme for our customers in rural and semi-urban areas. These cards will operate like Kisan Credit Cards and hassle free credit facilities are provided without insistence on security. Documentation formalities are also

very easy. To provide easy credit facilities to tenant farmers, oral lessees, sharecroppers, landless labourers, the bank has also introduced Bhumiheen Green Card which benefits this category of farmers who are unable to give any tangible security in the absence of any title/clear title to the land on which they raise crops. To inculcate the habit of group based financing to tenant farmers, the bank is financing through the mechanism of Joint Liability Groups.

### *Business Facilitators and Correspondents Models*

With the objective of ensuring greater financial inclusion and increasing our outreach, the bank is appointing Business Facilitators and Business Correspondents to offer services at the doorsteps of the customers resulting into scalability and reduction of transaction cost, making outreach a viable business proposition. The primary school teachers, ex-army personnel, heads of SHGs having good track record are preferred to be engaged as Business Facilitators.

The bank has also made tie ups with various agencies as Business Facilitators/Business Correspondents:

- \* India Post to market our priority sector loan products in six select districts of Maharashtra State covering 56 branches.
- \* MOU with IL&FS for mobilising priority sector loan proposals through their Kiosks at our Katewadi and Korhale branches in Maharashtra State.
- \* Tie up with Drishtee through their Kiosks at Kanpur and Meerut districts in Uttar Pradesh and Tejpur and Nowgaon districts in Assam.
- \* MOU with Government of Andhra Pradesh and IDRBT, Hyderabad for the pilot project at Warangal for disbursement of Social Security Pension of AP State Government and wages under Rural Employment Generation Programme. The technology is provided by A. Little World Pvt. Ltd. and services of Business Correspondent are provided by Zero Mass Ltd.
- \* MOU with Financial Information Network and Operations Pvt. Ltd. (FINO) and the project has been launched on pilot basis in Chandauli and Varanasi, Uttar Pradesh for providing financial services to rural folk in interior villages and in unbanked areas. Under the project, biometric enabled multifunction smart cards are issued which can store both financial and non financial information upto 15 functions in its memory. We are taking up similar initiatives in tie up with FINO at Wardha district in Maharashtra, Rewa and Sidhi districts in Madhya Pradesh and Samastipur and Khagaria districts in Bihar.

### *Increasing Outreach*

After the discontinuance of Service Area Approach, the commercial banks are now free to finance in villages which were earlier not covered within their service area/command area. The rural branches of commercial banks usually cater to

credit needs of five to seven nearby villages. There is, therefore, a need to increase the outreach to cover at least 20 villages per rural branch. The rural branch managers are usually tied up to their work due to availability of only skeleton staff. There is, therefore, a need to give them marketing support by engagement of intermediaries /business facilitators. The adoption of business facilitators models by commercial banks for outsourcing some of the bank activities shall reduce the cost of operation in rural areas and enable the bank to access the specialist expertise services from outside. It shall give a competitive edge to the bank to cover more number of villages per rural branch.

### *Formation of Farmers' Clubs*

Farmers' Clubs are formed by group of farmers with an objective for the development of the farmers through credit, technology transfer, awareness and capacity building. With a view to retain the existing clients there is a need for strengthening bank customer relationship and for which the bank is encouraging formation of Farmers' Clubs.

### *100% Banking Habit Villages*

The exercise of bringing/making more number of villages as 100 per cent banking habit villages is to be strengthened to ensure coverage of every household of the village by giving them access to banking services at least through opening a savings bank account to inculcate the banking habit in rural villages. This offers the bank an opportunity to

tap the large untapped rural market available for financial services. To provide the banking services to each and every household in the villages, the bank has initiated the exercise of making our command area villages, as 100 per cent banking habit villages.

Success of all the above efforts/initiatives lies in scaling the financial literacy amongst the rural folk. With this objective in mind the bank has taken following initiatives:

### *Village Knowledge Centres*

The bank has introduced the concept of Village Knowledge Centres (VKCs) for mutual benefit of the farmers and the bank. This is a unique initiative by the bank to empower the local population in the rural areas. VKCs are small units attached to rural branches of the bank. Each centre is equipped with a computer with internet facility. An official of the bank acts as a relationship manager to the local population. Farmers are encouraged to seek information on market prices, agricultural practices, weather conditions, etc. This enables the farmers to improve productivity of his farm. The bank's official liaises with local authorities in the area and facilitates the setting up of SHGs, Farmers' Clubs and other initiatives that enable the farmer to increase his earning capacity. Presently, 198 VKCs have been established by the bank across the country.

#### **VKCs undertake the following activities/offer following services free of cost:**

- \* Disseminate information on cropping patterns, improved seeds, fertilizers, pesticides, new technologies, etc. coming up in the field of agriculture for better yield and higher income to farmers.
- \* Offer updates on agro climatic conditions prevailing in the area.
- \* Educate the farmers on the importance of Self Help Groups, establishment of Farmers' Clubs, give inputs to farmers on skill development, etc.

#### **The bank uses VKCs to improve the economy of the villages through the following activities :**

- \* To guide farmers about the bank's products, various schemes and render assistance for completion of loan applications and other formalities for availing loan from the bank.
- \* To make command area villages as 100 per cent banked villages.
- \* To subscribe to local newspapers at gram panchayat office at bank's cost for inculcating the reading habit amongst the rural folk.
- \* To encourage villages to send their children particularly the girl child to school.
- \* To facilitate co-ordination with government departments, agricultural universities for assisting farmers/rural people.

## Financial Literacy

Government of India/Reserve Bank of India and other agencies are making concerted efforts to create awareness among the sectors concerned of the need to bring larger sections of the population into the banking fold. These efforts have resulted in financial inclusion becoming a priority area and a thrust area for the financial sector. The success of financial inclusion depends much on the extent of financial literacy.

In the words of Smt. Usha Thorat, Deputy Governor, Reserve Bank of India, credit counselling is very important for financial inclusion by banks. The idea is to empower the people of the various issues related to credit. As part of financial stability, there is need for financial literacy.

Financial education is a supportive activity to financial inclusion which involves bringing banking services to the hitherto unreached parts of the population. Financial education is the process in which people improve their knowledge and understanding of the use of financial products and services. Alongside with taking banking to the unreached, the bank has felt a need to involve itself in the task of creating financial awareness among the population.

While the VKCs mark a beginning made in positively impacting one area of the life of the rural population, the bank has also taken steps to address another vital need – "Financial Education". The bank's success with VKCs has enabled the bank to set up Financial Education Services Centres - Union Mitr at 51 select VKCs. Union Mitr has been



(LtoR) Shri MV Nail, Chairman & Managing Director, Union Bank of India, Smt. Shyamala Gopinath & Smt. Usha Thorat, Deputy Governors, Reserve Bank of India and Shri RS Reddy, Executive Director, Union Bank of India, at the launch of 'UNION MITR' - Financial Education Services on the 88th Foundation Day of the Bank

launched initially in the rural areas and will subsequently be taken to other areas of the country. The bank provides the following services in the Union Mitrs:

- \* Guidance on opening a bank account.
- \* Information on products of the bank including interest rates and charges.
- \* Information on managing savings and on the likely avenues of investment.
- \* Guidance about management of existing debt.

The bank, as a good corporate citizen, has stepped into the arena of counseling the common man to help him lead a decent and honorable life in the future days to come. The bank takes this as a privilege to shoulder social responsibilities as a noble service to mankind. The bank, with all the good intentions, helping an individual who is burdened with problems of debt to shape his future for better.

Financial education services are provided at these centres to all strata of the society in a friendly atmosphere and free of cost. In many cases, there is lack of awareness not only about products and services but also about where to go for help to get the information. Financial education goes beyond provision of information. It is a process of enabling the individual to educate himself so as to

acquire the skills and access resources to make himself capable of dealing with financial intermediaries. At our counselling centres, any individual can discuss his problems and get solutions in the form of information or advise. Complete confidentiality is assured to the individual. Information on financial products, services and where they are available is provided. There are countless people in search of guidance from an authentic source and the bank through its counseling centres will fit into this role, even to those who are not its customers. Benefit will be ushered equally on all those who seek help. The counselor acts as a friend indeed to any person approaching him for guidance.