

Over the last several decades the banking sector in the country has taken significant strides to achieve profitability, financial stability and competitiveness to cater to the increasing demand for financial services. However, much of the benefits accrued due to the growth in banking services have been limited to a minority of the total population of the country. Banks have not been able to reach a vast segment of the population particularly in the rural areas and take even basic banking services to the under served and disadvantaged masses, for various reasons. Banks have confined to only areas around their branch network whereas the need for cheap and timely credit transcends the boundaries of these branches to remote areas which lack even basic infrastructure.

HDFC Bank is one of the first new generation private sector banks to enter the microfinance sector four years back. Enthused by our experience and considering the huge positive impact on generation of livelihoods, financial empowerment to the rural women and poverty alleviation, the bank has rapidly adopted different business models for providing rural micro credit in unbanked areas to achieve the larger socio-economic objective of inclusive growth through financial inclusion.

# Revolutionising Banking Through Financial Inclusion & Literacy: The HDFC Bank Way

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## Financial Inclusion

Financial inclusion can be defined as providing affordable access to basic banking products and banking services like savings, loans, remittances, insurance, etc. to the hitherto excluded and often underprivileged and disadvantaged sections of the society. This disadvantaged section of the population comprises of marginal farmers, daily wage landless labourers, unorganised sector employees, urban slum dwellers, oral lessees, minority communities, SCs/STs, socially excluded groups and women. In India,

affordable access to basic financial services has been denied to a majority of the population in the Eastern, North Eastern and Central Indian states besides several districts in other parts of the country. Financial exclusion is often the symptom as well as the cause of poverty. Hence inclusion becomes a major pre-requisite to poverty alleviation. The services to be offered under financial inclusion constitute providing “no-frills” account, access to savings products, providing easy and right quantum of credit at affordable interest rates, insurance at affordable premia, etc.

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Going by the data as per the Reserve Bank of India (RBI), on an all India basis 41 per cent of the adult population is unbanked. In rural areas the unbanked figure is still higher at 61 per cent. The extent of exclusion from credit markets is much more, as number of loan accounts constituted only 14 per cent of adult population. In rural areas, the coverage is 9.5 per cent against 14 per cent in urban areas. Regional differences are significant with the credit coverage at 25 per cent for the Southern region and as low as 7, 8 and 9 per cent respectively in North Eastern, Eastern and Central regions. RBI notes that out of 203 million households in the country, 147 million are in rural areas – 89 million are farmer households. 51.4 per cent of farm households have no access to formal or informal sources of credit while 73 per cent have no access to formal sources of credit.

Financial exclusion has been predominant in rural areas primarily due to poor infrastructure resulting in lesser access. This along with financial illiteracy, burdensome documentation and procedures insisted by formal sources of credit, lack of customised financial products leads to exclusion. Lack of credit history and absence of documentary proof of identity or address of the prospective borrowers become obstacles for formal sources of credit to provide access to financial services. Consequently, this segment of the population goes to informal sources of credit for his/her financial needs even though it is costlier.

## HDFC Bank in Financial Inclusion

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector into unbanked and under-banked areas, the RBI had permitted banks to use the services of intermediaries such as NGOs/ SHGs (Self Help Groups) in providing financial and banking services through Business Facilitator and Business Correspondent models. This was a shot in the arm for the bank and the bank immediately conceptualised and implemented a method to achieve financial inclusion.

The bank has now successfully adopted the Business Correspondent (BC) model, as envisaged under the RBI guidelines and we have made a conscious strategy to disperse micro credit, thrift, insurance, remittance and

other financial services where it is needed the most. Based on this strategy, the bank has formulated this SHG-Bank linkage programme using the services of the BCs to bring in more clientele under financial inclusion and started implementing the same from September 2006.

- Good quality NGOs (Societies, Trust and Sec 25 companies) are identified, rated and approved as Bcs.
- MOU is entered with the BCs.
- SHGs sponsored by the BCs are rated for credit linkage
- The disbursements and collections are carried out at the door steps of the SHGs.
- Lower transaction cost and time leading to hassle-free credit without diluting the quality of the portfolio.
- RBI guidelines on BCs are fully complied with.

## Highlights of the Programme

- The bank has appointed 151 top performing NGOs across the country as BCs providing SHG-Bank linkage.
- Rolled out SHG Lending Programme in September 2006 and MOU signed with the 151 BCs in 14 States. The bank has provided access to financial services to about 2.59 lakh families under 17,748 SHGs with disbursements of Rs.220 crore till date. The quality of portfolio is evidenced by the 100% on-time repayment track record.
- All the members of SHGs hail from remote villages / unbanked areas. All the clients are women belonging to weaker sections.
- More than 80 percent of credit facility availed by these SHGs are for agriculture and allied activities.

## Reaching the Unbanked Through Financial Inclusion

- Special groups like tribal, minorities, physically handicapped, beggars, SC/ST, commercial sex workers are encouraged to take up livelihood projects, thereby lending them a helping hand to bring them to the mainstream.

- Out of the total micro finance clients of 2.59 lakh under SHG-Bank linkage programme, 28,892 belong to SC/ST. Of this 10476 members have been trained on banking aspects, account operation, repayment guidelines, etc. 13,115 beneficiaries falling under the minority community-categories have been provided with credit for taking up various economic activities to the tune of Rs. 14.07 crore in 7 states.
- 15,000 women members belonging to 95 SHGs residing in coastal area affected by tsunami have been provided with credit for livelihood activities.
- The bank has designed an exclusive savings product for SHGs and provided "ZERO BALANCE-NO FRILL Accounts" for them. Till date 17,748 SHGs have been provided with such facility.
- 40 qualified, experienced, and specially trained relationship managers from reputed institutions with high levels of commitment and social orientation are on board in the business division to run this programme.
- The bank has opened SHG dedicated branches at Thudiyalur, Therku Venganallur (near Rajapalayam), Allinagaram (near Theni), Pettavaithalai, all in Tamil Nadu and propose to open more such branches in other parts of the country.

## Social Impact of HDFC Bank's Initiative

### Special Groups Financed

- About 300 people of the backward community and people belonging to minority groups in Muzzafarpur, Bihar, about 2250 tribals of Kalahandi, Sambalpur, Phulbani, Boudh, Jeypore, Bawanpatna and Ganjam districts of Orissa, about 250 tribals of Dumka, Hazaribagh and Deoghar districts of Jharkhand, about 900 tribals of Jhabua and Dhar districts of MP, 50 backward caste people in Mirzapur, UP, about 3750 tribals of Buldana, Ballarshah Pusad areas of Maharashtra are supported for their agricultural activities and financial needs.
- Assistance provided to Bombay Mother & Children

Welfare Society for construction of toilets in villages of Rajgurunagar Taluk of Maharashtra and 362 families have been benefited.

- In TN, financial help was extended to 160 tribals of Kalrayan Hills of Villupuram district for goat rearing; 225 tribals of Jamnamaruthur Hills in Thiruvannamalai district for organic cereal cultivation, collection and marketing; 118 physically handicapped of Chengam in Thiruvannamalai district for forming micro enterprises; 727 tsunami affected fishermen in Cuddalore for setting up micro enterprises; Women tribal members at Valparai, Coimbatore district were helped to come out of the hands of money lenders; tribal people in Kolli hills for carrying out economic activities like cut flower cultivation, honey production, etc.; a unique SHG was formed in Rameshwaram in which the members are beggars; some SHGs formed among sex workers in Kodaikanal to bring them into the mainstream of life. In addition, Two "Nari Kuravas" groups (tribal nomadic gypsies) have been linked with the bank branches. Now these groups are involved in making "mani malas". Now these groups are doing this business in a big way and are sourcing the required raw material from New Delhi.



Tribal group making garlands



Parvatibai Jankilal at her bangle shop in Dewas Dt of MP

### *Abolition of Child Labour*

In Tirupur region of Coimbatore district in Tamil Nadu, the bank has credit linked 116 groups, comprising of 1345 women members, whose children in the past were working in many of the export companies. After credit linkage, the women made 70 percent of the children to go to school to pursue studies

### *Solid Waste Management for Greener India*

The bank is providing technology tie up through a BC for a group of rag pickers in Andhra Pradesh for disposal of waste in an environmentally friendly way. This project is under implementation on a pilot basis in the busy streets of SR Nagar in Hyderabad. This initiative can be replicated in other cities and towns, which could go a long way in implementing clean and environmental friendly solid waste management practices.

### *Intervention in Vidarbha Region*

Vidarbha region of Maharashtra has been witnessing a spate of farmer suicides with statistics revealing one farmer suicide every eight hours. This predominantly cotton growing region has been one of the worst affected agriculture belts in the country. With poor yields owing to lack of adequate irrigation facilities coupled with high cost borrowings made by the farmers primarily from unorganised channels have pushed them to take the extreme step of ending their lives.

The bank through its business correspondents have brought some meaningful change in the life of some of

the farmer families in the Lonar, Malkapur and Sindhkhed Raja taluks of Buldhana district and Patur, Balapur, Akot, Telhara, Barshi Takli and Murtijapur taluks of Akola district. The bank has been able to reach more than 6000 families (70% of whom belong to minority communities) through the SHG-linkage programme and our timely and adequate doorstep banking services have resulted in a positive change in the mindset of the people for a reassured life.

### *Targeting “financial inclusion” in BIMARU*

11000 families belonging to the BIMARU states were brought under financial inclusion by providing them No Frill saving accounts besides credit linkage.

### *Value Proposition in Financial Inclusion*

#### *Micro Insurance*

The bank’s existing Business Correspondents are being used in the process for providing micro insurance services to rural customers of the bank.

#### *Financial Literacy*

The bank’s experience with the Business Correspondents reveals that there is good awareness on the need for financial literacy among the Self Help Groups and these SHGs have been utilised as an effective tool for spreading financial literacy. Through the dedicated SHG branch at Thudiyalur, the bank has encouraged the SHGs to take up financial literacy and the results are encouraging. The field staff who attend the weekly group meetings also conduct sessions on the need for thrift, need for opening bank accounts for developing a savings habit, differences between borrowing from institutional and non-institutional agencies and differential interest rates being charged by these agencies. Through these families, the bank propose to extend financial literacy to more than one million rural folks, which will create desired socio-economic impact.

#### *Technology*

One of the rural initiatives, currently underway at HDFC Bank, is the branch hub & spoke model adopted to offer banking services to the rural and remote locations of the



Ramabhai SHG in Buldhana Dt of Vidarbha region, selling utensils

country. Under this model, the bank's rural or semi urban branch ("the hub") caters to surrounding village locations, the epicenter of which are typically located about 30-40 kms away. The village epicenter town is referred to as "the spoke". The bank has tied up with Business Correspondents ("BCs") who have presence at these spoke locations.

The bank is the largest service provider to co-operative banks and societies and is working with these co-operative relations as business correspondents. The bank's savings bank customers can deposit and withdraw small value cash at the BC's counters. The transactions are facilitated by a Point of Sale / Electronic Data Capture ( POS/EDC) machine installed at the BC counters.

The bank has launched a special rural savings bank product called Unnati Savings, only debit card holders of the Unnati accounts can access their accounts through the BC. They can also access their accounts directly from the bank branch and ATM's if they visit the hub locations. The Unnati a/c is a new age product for rural markets, its features include mobile banking, phone banking and net banking to enable the customer to remotely query the account and provides the customer the convenience of booking railway tickets online and recharge his mobile without traveling, the response has been encouraging. The other products distributed through this mechanism include FD's, mutual funds, two wheeler and auto loans. This initiative was piloted in February 2007 in Maharashtra and Gujarat with seven hub branches supporting a total of 22 spokes. This has now been extended AP, TN and UP and currently stands at 19 hubs and 46 spokes.

### *Credit Plus – Capacity Building & Training*

More than 172 training programmes have been conducted by the bank for training service providers as well as SHGs on various aspects of banking transactions, group dynamics, repayment guidelines, book-keeping, etc. in order to further the cause of Financial Literacy. Representatives from 5500 SHGs and around 220

Minority community groups in TN attending a training programme



supervisors of Business Correspondents participated in these training programmes.

The BCs are guided to form activity clusters wherein 25-50 SHGs shall come together and take up a common economic activity in order to make them self-sustainable. Bank shall assist them in identifying the backward and forward linkages.

### Conclusion

To conclude, HDFC Bank has a deeply felt commitment to financial inclusion and has been the pioneer in using the business correspondent model to achieve this purpose. A dedicated team of specialized and trained officers across the country are working exclusively on the various initiatives of the bank on Financial Inclusion and Literacy. With the introduction of technology and market linkage initiatives by the bank, the scalability, viability and sustainability of financial inclusion and literacy can be reasonably ensured. We expect that our efforts in promoting financial inclusion would not only improve access to financial services on competitive terms but also positively affect a market imperfection which can have a potential demonstrative effect on the banking sector thereby bringing in other players to serve the historically disadvantaged and under-served population in the country.