

## Financial Inclusion Helps More Than the Poor

Financial inclusion is an idea whose time has finally come in India. It will enable hundreds of millions of low-income people to improve their economic and social status by participating in the financial system.

Not only have the government and the Reserve Bank of India become very keen to promote inclusion, successful business models have at last emerged to serve the poor in a profitable manner. The capital, both debt and equity, are now available for this sector at reasonable cost even as better technology and Internet connectivity are making it easier and less expensive to reach the poor.

AFP/Getty Images Nearly half of all Indians don't have access to bank accounts.

Financial inclusion is the delivery of financial services at an affordable cost to low-income households. It is estimated that nearly 500 millions Indians are not served well (or even at all) by the current financial system. There is a close connection between poverty and financial exclusion, which can lead to estrangement, disaffection and reduced participation in society by low-income families.

The government of India and the Reserve Bank of India have been very concerned about financial exclusion and the great harm it causes to the society. The RBI has taken many initiatives to spread banking services such as expanding the number of rural bank branches as well as allowing the banking correspondent model.

The scale of the problem of financial exclusion can be daunting. Nearly half of the population and a majority of rural Indians do not have bank accounts. Less than 10% of India's 600,000 villages have a bank branch. Nearly 80% of the Indian population are without life or health insurance. Penetration of mortgages, mutual funds and pension products is also very low.

Financial literacy levels are extremely low. Even though microfinance institutions have expanded very fast in the last five years, they still only cover about one fifth of low-income households and they to meet only one tenth of the credit needs of the poor.

While it is a daunting challenge in size and scope, financial inclusion is also a great social and business opportunity.

Among the potential businesses that will benefit from more inclusion are business correspondents who can bring a simple banking services as wells insurance and even pension schemes to the poor.

Microfinance is another booming business that has grown out of inclusion. The total microfinance portfolio has grown more than fourfold in the last five years to more than 200 billion rupees (\$4.3 billion), thanks in part to banks lending more to microlenders. Non-Banking Finance Companies, or NBFCs, are also doing well.

Companies that lend using people's gold as collateral like Mannapuram and vehicle financing companies like Shriram Transport Finance, which generally finances commercial vehicles for drivers, have seen their portfolios soar.

New Delhi and the Reserve Bank can certainly play a major role in promoting financial inclusion, but there are significant opportunities for the private sector as well. Private firms can get involved not just for Corporate Social Responsibility purposes, but also to create a profitable business that is focused on the bottom of the economic pyramid.

### Some of the areas for further examination and consideration are:

- **Branch Expansion:** India needs to develop a low-cost bank branch model, possibly attached to village post offices.
- **Bank Financing:** The RBI should mandate that commercial banks have a certain percent of their portfolio in small loans. In addition, important social considerations should be factored into loan decisions. For example at Grameen Bank, borrowers' children have to be attending a school before they are eligible for a loan. Similar conditions should be imposed for eligibility of loans in India. The government could also add extra incentives to lend in troubled areas like Jammu and Kashmir.
- **Business Correspondents:** India needs to expand the current business correspondents model to allow microfinance institutions, NBFCs and other profit-powered companies to use correspondents.
- **Financial Literacy:** The government of India should help develop financial literacy among the population, particularly in low-income families. That can be done by teaching it in primary schools, high schools and colleges.
- **Telecom Companies:** Telecom companies should be allowed to provide payments and money transfer services. The highly successful money transfer service M-Pesa in Kenya launched by Vodafone is an example of how well this can work for remitting money.
- **Chit Funds:** Indigenous, community-based financial systems like the chit funds need to be revived and strengthened. They serve as a very useful savings and credit function and result in local growth and employment.
- **Post Office:** Post office employees should be trained and given incentives to market savings, investment and pension products. Some of these products have already been developed by the post office but have not been marketed effectively.
- **Village Money Lender:** In popular novels and films the village money lender is portrayed as a villain. But the fact is that for hundreds of years, he has been providing credit to the community. He knows his customers well, is available day and night, provides flexible products to suit customers' needs and is there when the customer needs him. Some of them could be trained to become business correspondents for banks and provide other financial products to their customers.

We must promote the financial inclusion aggressively to serve our own low-income families but also to show ways to improve the life of poor people around the world.

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