Contents

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Lesson from Bihar Elections

The poor show of BJP in Bihar shows that the strategy adopted by Narendra Modi and Amit Shah has failed and what works for parliamentary elections cannot work for assembly elections. They cannot continuously rely only on Modi to win every election and should create strong local leaders, who are well versed with the ground reality and can connect with the local people. This is the second major defeat for BJP after losing the polls in Delhi.

This is a blessing in disguise. It will make the ruling party at the centre less aggressive and more accommodative. There were instances earlier when the government acted with arrogance, which might subside now with these losses. It is quite possible that the government will henceforth reach out to the opposition with a different approach, and this may help the government in building a consensus for some of the important bills that have been stalled in the Rajya Sabha due to lack of numbers on the part of the ruling party. The opposition party too will not give any suggestions on important bills that are not in favor of the common people, and hence there is no harm in accepting their views.

From the market's perspective, the election result had only a temporary impact. We already saw the Sensex recovering 400 points from its low on Monday's trading session. What is important now is the pace of reforms. The government should expedite its reforms process, which will determine the long-term performance of the stock market. There are many bills, such as the budget, which can be passed even if the Rajya Sabha rejects them and the government should focus on such bills and take the economy out of its sluggishness. Meanwhile, floor management in the parliament should remain the priority of the ruling party.

Dr. G Sreenivas Reddy
Consulting Editor

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THE EVOLVING STRUCTURE OF THE FINANCIAL INCLUSION IN INDIA AND THE ROLE OF SMALL AND PAYMENT BANKS IN INDIA

Venugopal Rajamanuri
Adjunct-Professor, Aurora's Business School

Introduction

The origin of the term Financial Inclusion can be traced back to 1969 when the first Nationalisation of commercial banks happened in India with emphasis on inclusive growth in the country.

The word **FINANICAL INCLUSION** is one of the most talked about in financial services sector during the last decade. This word, of late, has become a buzzword in academic research, public policy meetings and seminars drawing broader attention in view of its critical role in assisting economic development of the developing and underdeveloped economies.

Financial inclusion or inclusive financing is the delivery of financial services like basic deposit, loan and remittance services at affordable costs(for example "no frill accounts") to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable and bring them to mainstream banking.

In the Indian context, the term 'financial inclusion' was used first in April 2005 in the Annual Policy Statement presented by the then RBI Governor. However, the origin of the word Financial Inclusion in its true sense can be traced back to 1969 when the first nationalisation of the commercial banks happened to promote inclusive and equitable growth in the country. Subsequently a series of the steps have been taken by the Central Government and RBI to promote the Financial Inclusion. Regional Rural Banks and Cooperative Banks followed the scheduled commercial banks in an effort to step up the inclusive growth. The structure in this programme has changed significantly after Government has taken steps to include more players like Banking correspondents, MFIs to take active part. The evolution continued and the Central government has in recent times, taken directs steps with its own schemes like Jan DhanYojana and relaxed KYC norms to increase the penetration. Thus it is observed that structurally there are significant developments in the financial inclusion programme in the last decade indicating increased focus on the programme.

Dimensions Of Exclusion:

An estimated 2 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions.

In the Indian scenario, even after 68 years of independence, a large section of Indian population still remains unbanked.

As per the D&B research in 2009-10; of all private sector branches IN Inia only 13% are in Rural India. Branch network of Scheduled commercial banks is 40% in Rural India; of the total SCB branches, Commercial bank branches cover only 7% of the rural sector. The large market is still untapped. The D&B research further says that, of all private sector branches, 13% are in Rural India. Branch network of Scheduled commercial banks is 40% in Rural India; of the total SCB branches. Commercial bank branches cover only 7% of the rural sector. The large market is still untapped.

As per a research conducted by RBI in 2009-10, 59% of the adult population in the country has bank accounts and 41% does not have. In Rural areas, the coverage of banks is 39% against 60% in Urban areas. Regional Rural Banks and Co-operative Banks form approximately 66% by presence in count although they account only 5.6% of the total business.

According to The World Bank's data, only 35% of Indians have an account with a formal financial institution. This is 42% in the case of men and 27% for women. Only 8% have debit cards and 2% credit cards. According to the 2011 Government Census, 58.7% households utilize formal banking services.

Rating agency Crisil, a Standard & Poor's company, has a financial inclusion index called the Inclusix. The all-India Inclusixfor 2010-11 score is 40.1 (which mean that about 40% of the country has access to formal banking services). There are wide variations between the regions in the country varying from 62.2% in the southern region to 28.6% in the eastern region.
The high-powered NachiketMor committee on Comprehensive Financial Services for Small Businesses and Low-Income Households, set up by the RBI, in Sept. 2013, found that 60% of the rural and urban population did not have a functional bank account. "India's financial inclusion indicators, particularly in banking, put it below the median of countries, and bank accounts are a first step to inclusion," Data on Banking Infrastructure in India of RBI reveals the scenarios of physical reach for the years 2012-2013 as follows:

Total of:

- brick & mortar bank branches 99,000 +
- ATMs 95,686
- business correspondents engaged by banks 221,341 as of 31 March 2013
- PoS machines installed 635,653

The above statistics reveal that even though the financial institutions are present to a certain extent in Rural areas; perhaps due to lack of awareness & basic financial literacy, the financial institutions are not deriving the optimum business, despite the high potential. This malaise has led generation of financial instability and pauperisation among the lower income group who do not have access to financial products and services. The situation as explained above calls for some bold out-of-box initiatives from RBI and the Central Government.

RBI and the Central Govt. in the recent past have taken a series of steps like licensing the small finance and payment banks, setting up of MUDRA bank as an independent regulating and refinancing agency for small and micro finance institutions, the no frills Jan Dhanyojana accounts etc. to give thrust to Financial Inclusion programme.

Objectives of the Study

This working paper focuses on such initiatives of the government, the new RBI licencing policies to work towards this objective, the challenges for the small banks and the possible solutions for the same.

The Specific objectives are as follows:

1. To study the evolving structure of the financial inclusion participation in India
2. To study the growth of banking sector in India and its contribution to financial inclusion.
3. To study grey areas in financial inclusion.
4. To study measures taken up by banks and RBI in fostering financial inclusion.
5. To study the constraints faced by smaller banks in Financial Inclusion programme in the past

Methodology

The present study is descriptive in nature and is based on secondary data collected from the following sources:

i. RBI bulletin, annual reports of RBI and Ministry of Finance, GoI,

ii. Report on trend and progress of banking in India, various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India .

iii.

  a. Presentations on Financial Inclusion in India: Select Issues presentation by Charan Singh RBI Chair Professor Economics

  b. by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the FICCI (Federation of Indian Chambers of Commerce & Industry) - UNDP (The United Nations Development Programme) Seminar on "Financial Inclusion: Partnership between Banks, MFIs and Communities", New Delhi, 14 October 2011.

  c. **articles on Financial Inclusion of Mr.V.Jaganmohan, Ex.MD of ABSCOB**

iv. Inclusive Finance- India Report 2014 by Tara Nair and Ajay Tankha

Review of Literature:

Report of the committee on Comprehensive Financial Services for Small Businesses and Low Income Households**(Nachiket More Committee, 2013)**observed that nearly 90 per cent of small businesses had no links with formal financial institutions while 60 per cent of the rural and urban population did not have a functional bank account, and much of the credit needs of the economy came from the informal sector. Difficulties of access and absence of a positive real return on financial savings had accelerated the move away from financial assets to physical assets and unregulated providers. This indicates a visible demand for a wide range of financial services by small businesses and low-income households. Concerted efforts are needed to ensure the achievement of several key goals such as universal access to a bank account; a ubiquitous payments infrastructure; and a base level access to all the other financial products such as credit and insurance within a relatively short period of time.

Inclusive Finance India Report 2014 has attempted to survey the financial services sector in India through the lens of inclusion. This marks a shift in focus as compared to its eight predecessors-titled as Microfinance State of the Sector Reports or SOS Reports that strictly confined their scope to analysing the growth trends and policy changes in the microfinance sector. The context and the terms of discourse of pro-poor financial services in India has been decisively altered in the past few years consequent upon the accelerated policy attention on financial liberalization and financial inclusion since the mid-2000s, the Andhra Pradesh microfinance crisis in the late 2000s and the subsequent regulatory initiatives by the central bank. The last two editions of the SOS Report did take note of these shifts and discussed their plausible implications for the structure and conduct of the microfinance sector.

The current edition of the report has chosen 'inclusive finance' as its theme in recognition of the fact that the core of India's financial sector policy has come to be constituted by restructuring and reforms that promote financial inclusion.

The report seeks to bring together the varying perspectives, policy prescriptions and practices around financial inclusion as they have evolved through recent years. While these are still in a stage of evolution and experimentation, there has not been much sharing and cross-learning among the stakeholders..

In the Financial Inclusion in India: Select Issues presentation by Charan Singh RBI Chair Professor Economics & Social Science Indian Institute of Management Bangalore… it is observed that as the majority of the rural population is still not included in the inclusive growth, the concept of financial inclusion becomes a challenge for the Indian economy. Since 2005, many concerted measures are initiated by the Reserve Bank of India and Government of India in favor of financial inclusion but the impact of these did not yield satisfactory results.

The paper aims to focus on utilizing the existing resources such as Mobile phones, Banking Technologies, India Post Office, Fair Price Shops and Business Correspondents (BCs) thereby making it more efficient and user friendly for the interest of the rural population as well as the formal sector.

Address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the FICCI (Federation of Indian Chambers of Commerce & Industry) - UNDP (The United Nations Development Programme) Seminar on "Financial Inclusion: Partnership between Banks, MFIs and Communities", New Delhi, 14 October 2011.

Financial inclusion initiatives in India - outlined some important milestones in the development of financial inclusion policy initiatives in India. We have adopted a bank led model in India to introduce a bouquet of products related to savings, payments & credit together. It is recognised that only the mainstream banking institutions have the ability to offer the suite of products required to bring in effective/meaningful financial inclusion. Other intermediaries and technology partners such as mobile companies have been allowed to partner with banks in offering services collaboratively. In this context, it is necessary to point out that MFIs/NBFCs/NGOs on their own may not be able to bring about financial inclusion, as the range of financial products and services which are considered as the bare minimum for financial inclusion purposes, cannot be offered by them. But they play an extremely important role in furthering financial inclusion in the sense that they bring people and communities into the fold of the formal financial system.

RBI (2005) proposed financial inclusion based on the business facilitators/business correspondent model, embracing the Brazilian success tale in India. The report also observed supply and demand side reasons for the lack of penetration of banking services in the rural areas. The report mainly emphasized on further acceleration of effervescent and effective delivery of credit to the rural farm and non-farm sectors and in order to attain this, the suggestions provided by the committee in the report were broadly based on the three models like facilitator model, business correspondent model and microfinance model.

Government of India (2008) observed financial inclusion as a delivery mechanism offering financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The recommendations of the report concentrated on the following areas. First, financial inclusion should cover access to mainstream financial products. Second, banking and payment services must be available to the entire population without discrimination. Third, promotion of sustainable development and generation of employment in rural areas should be a priority. Fourth, financial inclusion should be taken up in a mission mode and thereby suggested the formation of a National Mission on Financial Inclusion (NMFI) in order to accomplish universal financial inclusion within a specific time frame. Fifth, the Committee also recommended for the formation of two funds with NABARD- the Financial Inclusion Promotion and Development Fund, and the Financial Inclusion Technology Fund for superior credit absorption capacity among the poor and vulnerable sections of the CRISIL (2013) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. The parameters used by the CRISIL Inclusix took into account the number of individuals having access to various financial services rather than focusing on the loan amount. The three parameters of the index were branch, deposit and credit penetration. These parameters were updated annually and based on the availability of data, additional services such as insurance and microfinance were added. The key findings of the report were as follows: one in two Indians has a savings account and only one in seven Indians has access to banking credit; CRISIL Inclusix at an all-India level stood at a relatively low level of 40.1 for 2011 (on a scale of 100). In short, CRISIL gave ground-level information regarding the progress of financial inclusion in the country's rural and also in urban areas.

RBI (2014) focused on the provision of financial Services to the small businesses and low income households. Among the main motives of the committee included designing principles for maximum financial inclusion and financial deepening and also framing policies for monitoring the progress in the development of financial inclusion in India. Thus, in order to achieve the goal of maximum financial inclusion and increased access to financial inclusion the committee proposed the following measures: provision of full-service electronic bank account; distribution of Electronic Payment Access Points for easy deposit and withdrawal facilities; provision of credit products, investment and deposit products, insurance and risk management products by formal institutions. The main findings of the report highlighted the following key issues. First, the majority of the small businesses were operating without the help of formal financial institutions. Second, more than half of the rural and urban population did not have access to bank account. Third, savings in terms of GDP have declined in 2011-12. To address these issues, the Committee recommended that each individual should have Universal Electronic Bank Account while registering for an Aadhar card. The committee also proposed for setting up of payments banks with the purpose of providing payments services and deposit products to small businesses and low income households.

Financial Inclusion - Concept:

Financial inclusion or inclusive financing is the delivery of financial services like basic deposits, loans and remittances, at affordable coststo sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable.

It involves, following basic services/facilities:

i. No frills deposit accounts
ii. Basic Term Insurance/accidental insurance cover
iii. Remittance services

Rangarajan Committee (2008) on Financial inclusion stated that: "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups and affordable cost." The financial services comprises of entire gamut of savings, loans, insurance, credit, payments, etc. The financial system is expected to provide its function of transferring resources from surplus to deficit units, but both deficit and surplus units are those with low incomes, poor background, etc. By offering these services the objective is to assist them to come out of poverty.

Indian Institute of Banking & Finance (IIBF) states, "Financial inclusion is delivery of banking services at an affordable cost ('no frills' account) to vast sections of disadvantagedand lowincome group. Unrestrained access to public goods and services is the sine quo non of an open and efficient society".

According to the Planning Commission (2009), Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

KC Chakrabarty report adopts definition as follows:
"Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all members of the society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players"
GOI (2008) defines Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Dimensions of Financial Inclusion:
The level of financial inclusion in India can be measured based on three tangible and critical dimensions.
These dimensions can be broadly discussed under the following heads:

1. **Branch Penetration**
   Penetration of a bank branch is measured as number of bank branches per one lakh population.
   This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.
2. **Credit Penetration**
   Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrower loan accounts and number of agriculture advances eachper one lakh population.

3. Deposit Penetration
   Deposit Penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analysed.

Among the above three dimensions of financial inclusion, credit penetration is the key problem in the country as the all India average ranks the lowest for credit penetration compared to the other two dimensions. Such low penetration of credit is the result of lack of access to credit among the rural households. Therefore, the problem of low penetration needs to be understood more deeply. An attempt has been made to study the problem by examining the progress of financial inclusion over the years and efforts made by the government for reducing the low penetration of credit.

Factors Affecting Access to Financial Services

Some of the major factors affecting access to financial services are:-

i. Psychological and cultural barriers-Many people willingly excluded themselves due to psychological
ii. Lack of legal identity like voter id or ration card
iii. Low level of income creating a mind set that banking is for rich people only
iv. Various terms and conditions of banks like minimum balance
v. Structural procedural formalities-It is very difficult for people to read terms and conditions and account-filling forms due to lack of basic education.
vi. Limited literacy- Lack of financial literacy and basic education prevent people to have access to financial services.
vii. Place of living-Commercial banks operate only in profitable areas.

The Indian Context:

In context of India, the term 'financial inclusion' is famous in financial circles, particularly after the Reserve Bank of India (RBI) announced a series of initiatives in its credit policy for 2006-07 to include many of the hitherto excluded groups in the banking net.

In the Indian context, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, Governor, Reserve Bank of India. Later on, this concept gained ground and came to be widely used in India and abroad. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion.

The Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance (Khan Committee) in July 2005 drew strength from this announcement by Governor Y. Venugopal Reddy in the Annual Policy Statement for 2005-06 wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system. In the Khan Committee Report, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. Subsequently Banking correspondent models have been introduced to provide banking services in unbanked rural areas. Raghuramrajan committee in its recommendations in 2009 also recommended relaxation of BC eligibility norms to improve the penetration of banking and financial services in rural and unbanked areas.

In the current scenario financial inclusion is one of the most critical aspect for inclusive growth and development of economies. The financial inclusion term was first time used by British glossary when it was found that 7.5 million persons did not have a bank account. But the theory of financial inclusion is not new one in Indian economy. Bank nationalization in 1969, setting up of RRBs (Regional Rural Banks) and introduction of SHG-bank linkage programs were measures taken by RBI to provide financial accessibility to the unbanked groups.
The Financial Inclusion has again assumed the importance with Mr. RaghuramRajan taking over as RBI Governor. RBI has again appointed another high-level committee-Nachiket More Commitee on Financial Inclusion in recent past in 2013. The RBI has, in the recent past, taken numerous measures to give impetus to financial inclusion The new banking licences guidelines issued by RBI also emphasizes on the need for increased financial inclusion and stipulates the new banks to have minimum branch network of 25% in rural areas. Later RBI has taken further steps in this direction by inviting applications for floating PAYMENT AND SMALL BANKS which will mainly focus on unbanked areas.

The new NDA govt. also taken this issue seriously and taken initiative from their end by promoting the JAN DHAN YOJANA with a big fanfare to bring the unbanked areas into the banking mainstream

I. **The History of Financial Inclusion programmes in India: The evolving structure**

The history of financial inclusion in India is very long and involves different stages. The progress can be examined through these different stages. The concept of examining financial access became important immediately after the All-India Rural Credit Survey that was completed in the 1950s. The results of the survey revealed that farmers relied heavily on money-lenders in the year 1951-52. Only the urban areas had large number of bank branches compared to rural areas. Such a condition continued in the country until RBI started financial inclusion growth model in the 2000s. Because the urban areas were fully concentrated with numerous bank branches, this resulted in the higher absorption of bank credit in the urban areas. Thus, the growth of the private business credit was seen in the year 1957-61 from 44 percent to 60 percent in the year 1970.

Inview of above the Government of India and the Reserve Bank of India have taken several steps over a period of last five decades, for increasing the level of financial inclusion.
The structure has evolved as under:

- Nationalization of banks (1969, 1980) to spread branch banking and promote inclusive growth.
- Priority Sector Lending requirements - stipulating minimum lending unbanked sectors
- Establishment of Regional Rural Banks (RRBs) (1975, 1976)
- Service area approach (1989)
- Self-help group-bank linkage program (1989,1990)

Rural Cooperative bank credit - RBI provided massive financial and development support to RCC's, in the nineties.

- Creation of specialized institutions, ARC(1969), ARDC(1975) and NABARD(1982)
- Promotion of Urban Coop. Banks - (Madhava Rao committee 1999)
- Promotion of Local Area Banks as Area Specific institutions
- Micro finance institutions (from the 1990s)- SHG-MFIs, NGO-MFIs and NBFC-MFIs
- Banking Correspondent Model (from 2005-06) -The correspondents were created in January 2006 in response to guidelines issued by the RBI.

The inadequacies of the formal financial system to cater to the needs of the poor and the realization of the fact that the key to success lies in the evolution and participation of community based organizations at the grassroots level led to the emergence of new generation of MFIs.

Micro finance emerged in the early 1990s, to provide savings and credit services to poor as an alternative to conventional bank lending.:

The types of MFIs are:

i. MFI-NGO engaged in promoting Self Help Groups (SHGs) and their federations at a cluster level and linking SHGs with Banks under the Scheme. Examples are Sanghmitra, PRADAN which has established a large number of SHGs and federated them under Damodar in Bihar, SakhiSamiti in Rajasthan.

ii. MFI-NGO directly lending to the poor borrowers, who are either organized into SHGs or into Grameen Bank type of groups after borrowing bulk funds from SIDBI, RMK and FWWB. Examples in this category are RashtriyaGraminVikasNidhi (RGVN),SHARE in AP, ASA in Tamil Nadu under this category.

iii. MACTS- MFIs which are specifically organized as cooperatives, such as over 500 Mutually Aided Cooperative Thrift and Credit Socities (MACTS) in AP, promoted among others by Cooperative Development Foundation (CDF) and the SEWA Bank in Gujarat.

IV. NBFC- MFIs, which are organize as Non-Banking Finance Companies (NBFC) such as Bandhan, Spoorthy,BASIX, CFTS Mirzapur, SHARE Microfin. Ltdetc.

Micro Finance Institutions could to some extent reach the poor effectively mainly because they have designed products and channels, which are friendly and suitable to the need of the poor. However, MFIs outreach is limited in comparison with the mainstream financial institutions because of the shortage of financial and human resources. MFIs were saddled with following issues:

- Structural and Sustainability Issues
- Shortage of Capital resources
- Funding issues - high capital and transaction costs
- Regulatory issues - absence of proper regulatory controls
- Inability to strike balance between social and commercial goals

Micro Finance Institutions have shown a negative growth as revealed under Annexure 6 &7 which warrants early remedial measures.

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the Reserve Bank permitted banks to utilise the services of intermediaries in providing financial and banking services through the use of business correspondents (BCs). Guidelines were given by RBI to this effect in January 2006.

Since its introduction in the year 2006, the BC model has been seen as an innovative way of serving the unbanked by allowing the banks to reach out to them through a network of 'external agents'. The BC model represents a major departure from the conventional brick and mortar branch based banking framework.

Since this watershed regulation was introduced, the Reserve Bank of India puts the number of "business correspondents" (BCs) or Customer Service Points employed by banks to help get services to people at the bottom of the income pyramid at 221,341.

The BC Model has though shown a lot of promise, faces serious challenges that need to be addressed for it to reach even a fraction of its real potential. The model has indeed received a lot of interest from myriad entities including Telecom Companies, Corporates, and Technology firms as well as grassroots organisations working with the poor such as NGOs and MFIs. Nonetheless, it is far from attaining business viability or sustainability for making a real difference.

At the heart of the problem lie three distinct issues;
that of distribution, customer connect; and, commercial sustainability.
Since the BC model is agent driven, the success of it depends on:

i. The efficiency and motivation of the agent in connecting with the customer
ii. Equally retail banking being a distribution business, BC becomes a business of managing these distribution points by addressing risks associated with financial transactions.
iii. The third element is that of economics of the BC business model. Unless the BC finds it adequately remunerative the whole model can become unsustainable. And, this has been arguably, a critical aspect of the relative lack of success.
iv. The banks have seen the entire financial inclusion initiative as 'mandate driven". Consequently, they had no incentive to invest in this "business". With the principal i.e. the bank not having the adequate commitment, then translates into the failure of the 'agents'.
v. It is also true that managing retail channels is really hard business in a country with such a diverse geography, which makes it all the more difficult for most of the banks who have no experience of operating beyond their own branches.
vi. While the BC's have been able to address access issues and reach out to the last mile…not enough attention has been paid to produce customer centric products and services that will motivate the customer to jump on to the bandwagon.

As reported by the banks under their financial inclusion plans nearly 2,48,000 BC agents had been deployed by banks as on March 31, 2014 which are providing services through more than 3,33,000 BC outlets. Nearly 117 million basic saving bank deposit accounts (BSBDAs) opened through BCs remained outstanding as on March 31, 2014. Though the number of BC-ICT transactions showed considerable increase, it was observed that the increase in the volume of transactions was not commensurate with the increase in the number of BCs engaged and the accounts opened through them. A review of the BC model highlighted that the cash management system followed by the banks for BC operations was one of the major impediments in the scaling up of the BC model.

In order to facilitate the scaling up of the BC model, the Reserve Bank recently issued the guidelines asking bank boards to: (i) review the operations of BCs at least once every six months with a view to ensuring that the requirement of pre-funding of corporate BCs and BC agents should progressively taper down; and (ii) review the remunerations of BCs and lay down a system of monitoring by the top management of the bank. It also directed that the cash handled by BCs be treated as the bank's cash and the responsibility for insuring this cash should rest with the bank.

Various measures taken by Government of India, Reserve Bank of India and NABARD can be classified as under:

Government of India:

- Customer Service Centres
- Credit Counselling Centres
- Adhaar Scheme
- The National Agricultural Insurance Scheme
- No-frill Account
- Know Your Customer
- General Credit Card
- Project on Processor Cards
- Micro Finance Development Fund

Reserve Bank of India:

- Role of NGOs, SHGs and MFIs
- BF and BC models
- Micro Pension Model
- Nationwide Electronic Financial Inclusion System
- Project Financial Literacy
- National Rural Financial Inclusion Plan
- Financial Inclusion Fund
- Project on "e-Grama"
- SHG-Post Office Linkage

NABARD

- Financial Inclusion Technology Fund
- Separate Plan for Urban Financial Inclusion and Electronic Benefit Transfer Scheme
- Financial Literacy through Audio Visual medium - Doordarshan
- Support to Cooperative Banks and RRBs for setting up of Financial Literacy Centres
- Farmers' Club Program
- Rural Volunteers as Book Writers

The Financial Exclusion Saga

It is imperative to understand the 'Financial Exclusion' in India before making an analysis of the measures initiated by Indian Banking sector towards strengthening financial inclusion. According to the report of the World Bank, in survey of 148 economies roughly 2.5 million people do not have bank account and completely out of the reach of financial services and products. They do not have access to affordable financial services which is an ultimate tool for overcoming poverty and mitigate income inequalities.

According to the world bank report, a meagre 50 percent adults population have an account in formal financial institutions while balance is out of banking net. Where 54.7 percent male adults have an account in formal financial institutions, merely 46.3 percent female adults have an account. This report shows that 20.9 percent adults use an account to receive their wages and only 22.4 percent adults saved at formal financial institutions in the past year. 9.0 percent adults have taken loan from formal financial institutions in the year of 2011. The survey further revealed that 55 percent of borrowers in developing countries use only informal source of finance.

India is place of the largest unbanked population where, only 35 percent adults having an account in financial institutions which shows that percentage of account penetration in India just below rest of the developing world. Nearly 50 percent of adults reports in Andhra Pradesh and Delhi NCR and 40 percent in Gujarat, Kerela, and Maharashtra having a formal account but Bihar, Orissa, and Rajasthan reports less than 30 percent account penetration. In the Census data of 2011, out of the population of 1.22 billion and 65 percent of adults across the country are excluded from the formal financial system. As per the report of the World Bank, in India, merely 35.2 percent adults above the age of 15 years have an account at formal financial institutions. 55 percent population has deposit accounts and merely 9 percent population hold credit accounts with formal financial institutions. Reports reveal that there is one bank per 14000 persons. Merely 18 percent are debit card holders and less than 2 percent are credit card holders. In India, despite expansion of bank branches post reform period, the total branches of commercial banks including RRB's and SCB's has still stood just 48000 in a country to provide service to 6 lakh villages. Thus, there is only one bank branch over 12.5 villages.

The Extent of Financial Exclusion in Banking Industry

The Perspective of growth in Banking Industry between 2001 and 2012

The Banking Industry size, which includes both deposits and credit, more than doubled from Rs.1,605,278 crores to Rs. 11,491,200 crores during last eleven years with the growth of 715 per cent. The deposits grew from Rs. 1,021,129 crores in December 2001 to Rs.6,466,317 crores in December 2012, by 633%. The Credit grew from Rs. 584,149 crores in December 2001 to Rs.5,024,883 crores in December 2012, by 860%. The branch strength increased by 35,306 branches from 66,261 to 1,01,567. The growth in absolute figures looks very impressive. The period in analysis has been characterized by the following unique developments in Banking Industry.

- The competition in Banking Industry has been intensified by the entry of new generation of private sector banks who have started without any legacy issues and adopted the technology from the day one. They have redefined the banking through technology and aggressive marketing strategies and new products.

- Public Sector banks and other Old Private Sector banks embarked on huge technology transformation and computerized their operations through Core Banking Solutions. Most of these banks also have undergone Organizational Restructuring and Business Process Engineering to become more customer oriented in order to compete with aggressive new generation private sector banks.
- Indian economy also grew around average 8% growth during the last decade which also contributed huge expansion of banking business.

In spite of the massive transformation of banking industry during the last decade in technological and business strategy terms, it appears that Banking Industry seems to be more metro-centric than equally spread across all population segments thus leading to huge financial exclusion in the country. The extent of financial exclusion is discussed according to geographical and population segments in one decade between 31-12-2001 and 31-12-2012 as under:

The following table sums up the current situation in respect of Financial Exclusion.

TABLE-1- The growth in Banking Sector during the last eleven years (31-12-2001 to 31-12-2012) in various geographic segments.

Population Segment	Number of Branches		Deposits (Rs in Crs)		Credit (Rs in Crs)		Credit/Deposit Ratio (CDR in %)	
	31-12-01	31-12-12	31-12-01	31-12-12	31-12-01	31-12-12	31-12-01	31-12-12
ALL INDIA	**66,261**	**1,01,567**	**1,021,129**	**6,466,317**	**584,149**	**5,024,883**	**57**	**77**
Top 6 Metro Centers	5,888 (8.88)*	10,365 (10.02)	356,701 (35)	2,769,401 (42)	309,730 (53)	2,710,282 (54)	86	98
Metro Centers(53)	8,627 (13)	17,937 (17.6)	433,347 (42)	3,531,052 (54)	355,413 (60)	3,271,998 (65)	**82**	**92**
Urban Centers inclusive of metro and urban centers	19,133 (29)	37,488 (37)	670,365 (65)	4,917,411 (76)	455,997 (78)	4,090,077 (81)	68	**83**
Semi-Urban Centers	14,632 (22)	26920 (26)	201,241 (19)	923,059 (14)	67,012 (11)	508,618 (10)	**33**	**55**
Rural Centers	32,496 (49)	37,519 (37)	149,522 (14)	625,846 (9.6)	61,139 (10)	426,187 (8.5)	**41**	68

Figures in brackets indicate relative Percentage (%) share in all India figures.
(Source; RBI Quarterly Bulletin December 2001 and 2012.)

a) At top Six Metro Centers

The top six metro centers according to Census 2011 are Mumbai, New Delhi, Chennai, Kolkata, Bangalore, Hyderabad. These metro centers have the population of 73.8 million which constitutes around 6% of India's population. However, it is observed that major share of banking business is disproportionately concentrated in these six metro cities when compared to their small share of the overall population.

- The share of six metros in Branch strength vis-à-vis national network was 8.8% in December 2001 and increased to 10.2% in December 2012. In absolute terms the branch strength increased from 5888 branches in December 2001 to 10365 branches in December 2012..
- The share of these six metros in total Deposits was at 35% in December 2001 which was increased to 42% in December 2012. The deposits in these six metros increased from Rs. 356,701 crores in December 2001 to Rs.2,769,401 crores in December 2012, an increase of 776%.
- The share of six metro cities in Credit was at 53% in December 2001 which was increased to 54% in December 2012. The credit in these six metros increased from Rs. 309,730 crores to Rs. 2,710,282 crores, an increase of 875%.
- The Credit-Deposit Ratio increased from 86% in December 2001 to 98% in December 2012.
- This metro segment with population of 73.8 million(2011 Census) represent 47.6% of the total banking industry size at Rs.5,479,683 crores.

The above analysis reflects the huge metro-centric concentration of Indian Banking Industry in a disproportionate manner. 47% of Banking Industry is concentrated in these six metros with only 73.8 million population out of 1210 million population of India. These six metros together also have very high Credit/Deposit ratio of 98% much above the national average of 77% as on December 2012.

b) At all metro centers.

According to Census 2011, any city which has more than million population is considered as Metro centre. There are 53 metro centers in the country. The population of these metro centers is around 160.7 million as per Census of 2011, constituting around 42% of Urban Population in the country. Let us analyze the banking trends in these metro centers.

- The share of metros in Branch strength vis-à-vis national network was 13% in December 2001 and increased to 17.6%. In absolute terms the branch strength increased from 8627 branches in December 2001 to 17937 branches in December 2012.
- The share of the metros in total Deposits was at 42% in December 2001 which was increased to 54% in December 2012. The deposits in these metros increased from Rs. 433,347 crores in December 2001 to Rs.3,631,052 crores in December 2012, an increase of 837%.

- The share of metro cities in Credit was at 60% in December 2001 which was increased to 65% in December 2012. The credit in these metros increased from Rs. 355,413 crores to Rs.3,271,998 crores, an increase of 920%.
- The Credit-Deposit Ratio increased from 82% in December 2001 to 92% in December 2012.
- This metro segment with population of 160.7 million(2011 Census) represent 60% of the total banking industry size at Rs.6,903,050 crores.

The above analysis reflects the huge metro-centric concentration of Indian Banking Industry in a disproportionate manner. 60% of Banking Industry is concentrated in these 53 metros with only 160.7 million population(13.2%) out of 1210 million population of India. These 53 metros together also have very high Credit/Deposit ratio of 92% much above the national average of 77% as on December 2012

Urban Centers

According to Census 2011, there are 7935 towns and urban agglomerations in India. The total urban population is around 377 million constituting 31.16% of total population. Let us analyze the banking trends during last decade in these urban centers:

The share of urban centers in Branch strength vis-à-vis national network was 29% in December 2001 and increased to 37%. In absolute terms the branch strength increased from 19133 branches in December 2001 to 37488 branches in December 2012.

- The share of the urban centers in total Deposits was at 65% in December 2001 which was increased to 76% in December 2012. The deposits in these urban centers increased from Rs. 670,365 crores in December 2001 to Rs.4,917,411 crores in December 2012, an increase of 733%.
- The share of urban centers in Credit was at 78% in December 2001 which was increased to 81% in December 2012. The credit in these centers was increased from Rs. 455,997 crores to Rs.4,090,077 crores, an increase of 896%.
- The Credit-Deposit Ratio increased from 68% in December 2001 to 83% in December 2012.
- This urban segment with population of 377 million(2011 Census) represent 78% of the total banking industry size at Rs.9,007,488 crores.

The above analysis reflects the huge urban-centric concentration of Indian Banking Industry in a disproportionate manner. 78% of Banking Industry is concentrated in these 7935 urban centers with 377 million population(31.6%) out of 1210 million population of India. These urban centers also have very high Credit/Deposit ratio of 83% much above the national average of 77% as on December 2012

Semi-Urban &Rural Centers

The entire country barring urban areas is defined as Semi-urban and rural centers. There are 5,93,731 villages and semi-urban centers in India with population of 833 million constituting 68.84% of total population. Let us analyze the banking trends in semi-urban and rural centers:

- The share of semi-Urban centers in Branch strength vis-à-vis national network was 22% in December 2001 and increased to 26% in December 2012.. In absolute terms the branch strength increased from 14362 branches in December 2001 to 26920 branches in December 2012.
- The share of rural centers in Branch strength vis-à-vis national network was 49% in December 2001 and decreased to 37% in December 2012. In absolute terms the branch strength increased from 32496 branches in December 2001 to 37519 branches in December 2012.

- The share of the semi-urban centers in total Deposits was at 19% in December 2001 which was decreased to 14% in December 2012. The deposits in these semi-Urban centers increased from Rs. 201,241 crores in December 2001 to Rs. 923,059 crores in December 2012, an increase of 458%, though in percentage terms, the share vis-à-vis total deposits decreased.

- The share of the rural centers in total Deposits was at 14% in December 2001 which was decreased to 9.6% in December 2012. The deposits in these semi-Urban centers increased from Rs. 149,522 crores in December 2001 to Rs. 626,846 crores in December 2012, an increase of 419%, though in percentage terms, the share vis-à-vis total deposits decreased.

- The share of semi-urban centers in Credit was at 11% in December 2001 which was decreased to 10% in December 2012. The credit in these centers was increased from Rs. 67,012 crores to Rs. 508,618 crores, an increase of 758%, though in percentage terms, the share vis-à-vis total credit decreased.

- The share of rural centers in Credit was at 10% in December 2001 which was decreased to 8.5% in December 2012. The credit in these rural centers was increased from Rs. 61,139 crores to Rs. 426,187 crores, an increase of 697%, though in percentage terms, the share vis-à-vis total credit decreased.

- The Credit-Deposit Ratio in semi-urban centers increased from 33% in December 2001 to 55% in December 2012. The Credit-Deposit Ratio in rural centers increased from 41% in December 2001 to 68% in December 2012.

- This semi-urban and rural segment with population of 833 million(2011 Census) represent 21.6% of the total banking industry size at Rs.2,483,710 crores.

The above analysis reflects the huge exclusion of rural and semi-urban population by Indian Banking Industry. Though banking industry modernized and increased its network during the last decade, the share of rural and semi-urban centers in Deposits and Credit in total Deposits and Credit in the country declined. These semi-urban and rural centers also have very low Credit/Deposit ratio of 55% and 68% respectively much below the national average of 77% as on December 2012. The decline in percentage shares coupled with low CD ration indicates that all efforts of financial inclusion have not yielded desired results.

1. Analysis by Number of Deposit and Credit Account Between March 2003 and 2012

Table-2 : Deposits and No of Accounts According to Population Group as on March 2003 and 2012

Population Group	MARCH 2003		MARCH 2012	
	No of Accounts	**Amount of Deposits (Rs. In Crores)**	**No of Accounts**	**Amount of Deposits (Rs. In Crores)**
Rural	13,67,33,498 (30.7%)	1,76,502 (13.9%)	28,30,71,790 (31.3%)	5,73,185 (9.4%)
Semi-Urban	11,75,36,969 (26.3%)	2,41,756 (18.9%)	23,99,51,065 (26.6%)	8,42,544 (13.9%)
Urban	9,60,99,109 (21.5%)	2,90,503 (22.8%)	18,06,26,261 (20%)	12,72,592 (20.9%)
Metropolitan	9,57,11,136 (21.5%)	5,67,433 (44.5%)	19,95,51,541 (22.1%)	33,89,920 (55.8%)
Total	**44,60,80,712**	**12,76,195**	**90,32,00,257**	**60,78,243**
Total Branches	**68,078**		**1,00,805**	

(Source: Basic Statistical Returns of Scheduled Commercial Banks by RBI)

DECLINE IN PERCENTAGE SHARE OF DEPOSIT AMOUNT IN RURAL, SEMI-URBAN AND URBAN AREAS DURING MARCH 2003-2012

It can be observed from the table 2 above, though percentage share of No. of Deposit Accounts have remained more or less same between March 2003 and March 2012 in Rural, Semi-Urban and Urban, the percentage share of Deposit amount has gone down substantially from 13.9% to 9.4% in Rural areas, from 18.9% to 13.9% in Semi-urban areas, and from 22.8% to 20.9% in Urban areas during the above period. However, in Metro centers, the percentage shares of No. of Deposit Accounts and Deposit Amount have gone up from 21.5% to 22.1% and from 44.5% to 55.8% respectively. The decline of percentage shares in Deposit Amount in Rural, Semi-urban and Urban areas happened despite growth of 32,727 branches during this period. In spite of much emphasis on Financial Inclusion by policy makers, the ground level penetration in deposit mobilization as percentage terms is declining. The percentage share in no. of account is also more or less remaining the same in above three population group, whereas percentage share in no. of accounts and deposit amount is showing considerable increase. In conclusion, the Banking Industry is focusing only on Metro areas thereby leaving Rural, Semi-Urban and urban areas financially excluded.

Table-3: Credit and No of Accounts According to Population Group as on March 2003 and 2012

Population Group	MARCH 2003		MARCH 2012	
	No of Accounts	Amount of Credit (Rs. In Crores)	No of Accounts	Amount of Credit (Rs. In Crores)
Rural	2,55,535 (42.9%)	77,153 (10.2%)	4,11,15,815 (31.4%)	3,39,694 (7.2%)
Semi-Urban	1,54,45,695 (26%)	85,411 (11.3%)	3,10,47,711 (23.7%)	4,57,211 (9.7%)
Urban	80,06,526 (13.5%)	1,23,661 (16.4%)	1,74,42,387 (13.3%)	7,79,561 (16.5%)
Metropolitan	1,05,06,431 (17.7%)	4,69,741 (62.1%)	4,12,74,808 (31.5%)	31,47,679 (66.6%)
Total	**5,04,91,187**	**7,55,968**	**13,08,80,721**	**47,24,146**
Total Branches	**68,078**		**1,00,805**	

(Source: Basic Statistical Returns of Scheduled Commercial Banks by RBI)

DECLINE IN PERCENTAGE SHARE OF DEPOSIT AMOUNT IN RURAL AND SEMI-URBAN DURING MARCH 2003-2012

On credit front also, the scenario is not much different from the one which is prevailing in Deposits. In fact, there is sharp decline in percentage shares in Credit Account and Amount in rural, semi-urban and Urban areas. In Rural areas, the percentage share of Credit accounts and amount in rural areas has come down from 42.9% to 31.4% and from 10.2% to 7.2% respectively. In Semi-urban areas also, the percentage share of Credit accounts and amount in semi-urban areas has come down from 26% to 23.7% and from 11.3% to 9.7% respectively. Though percentage shares in Urban Areas more or less remained same, the percentage shares in Credit account and amount have gone up significantly in Metropolitan areas reflecting the bias towards metro banking only.

In recent years, the CRISIL Inclusix index for 2009 and 2010 also shows a dismal situation (Table 3), although, 2011 shows some progress in the development of financial inclusion in India.

Region	Inclusix2011	Inclusix 2010	Inclusix2009
India	40.1	37.6%	35.4%
Southern Region	62.2	58.8	54.9
Western Region	38.2	35.8	33.9
Northern Region	37.1	34.8	33.3
Eastern Region	28.6	26.3	24.3
North Eastern Region	28.5	26.5	23.8

Source: CRISIL (2013).

Annexure-2-TableIV-7shows the further progress of all banks that are associated with financial inclusion including RRBs, since 2010.

Data Analysis or Findings

An analysis of the financial exclusion data as above indicates that :

Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. A number of rural households are still not covered by banks. They are deprived of basic banking services like a savings account or minimal credit facilities. The proportion of rural residents who lack access to bank accounts is nearly 40 per cent, and this rises to over three-fifths in the eastern and north-eastern regions of India.

- From the above data, it is evident that while going for expansion of branches, Commercial Banks (Scheduled Commercial Banks) have not paid equal attention to all the regions, i.e. rural, semi-urban, urban and metropolitan. It is still observed that whenever any scheme or plan of expansion of branches is formulated, emphasis is more towards urban, semi-urban and metropolitan areas.
- Majority of India's population in Urban, Semi-urban and Rural areas appear to be still underserved by the Banking Industry leading to financial exclusion.
- There are uneven levels of banking penetration within each population segment, more so at non-metro urban, semi-urban and rural segments.
- Banks, both in private and public sector, with national presence are not able to make any dent in Financial Inclusion. They are more focused on lucrative Metro segment of the market only giving lip sympathy with regard to penetration in rural and semi-urban markets. They also have severe constraints with regard to manpower which is neither rural nor social sensitive.
- The New Private Sector Banks(NPSBs) have been in operation for nearly two decades, and for much of this period their focus on the metropolitan centres has been with the regulator's (i.e., RBI's) approval as it has approved the NPSBs' branch concentration in these centres. As of March 2013, 30 per cent of the NPSB branches were based in metropolitan centres, as compared with SBI group's 17 per cent and the nationalized banks' 20.3 per cent. Rural centres account for only 11.6 per cent of NPSB branches as against SBI group's 34 per cent and the nationalized banks' 32 per cent. Prior to 2012-13, a far lower share of NPSBs' branches were rural branches (approximately 8 per cent); in that year, the number increased to over 11 per cent on account of the regulator's belated focus on compelling these banks to open more rural branches.
- There can be several marketing and operational reasons for the same, like, higher customer base, both for deposit and loan products, easier to sell the products to the potential customers, higher literacy levels among the customers, better infrastructure, low operating expenses etc.

- But in process, it should not be forgotten that rural households possess tremendous potential.Rural and semi-urban banking has also become much more complex due to various factors.
- Banks are constrained by their capacity/ability as, till a few years ago, appropriate banking technology was not available. But, now, with the availability of suitable banking technology, the time has come when the Indian banking system can make and deliver on that promise.
- MFIs are showing negative growth(as per the data under Annexure-6&7) and there is a need to arrest the trend and also find suitable alternatives.
- If adequate literacy programs are undertaken by banks in association with various NGOs then the awareness regarding the need for holding a bank account will grow among the rural populace. However, measures in this direction have been already initiated but more endeavors needs to be invested.
- But the new bank licenses are expected to play a crucial role in expanding branch networks of private sector banks. The objective of floating new banking licenses was to move ahead towards financial inclusion so that large numbers of persons who have no access to financial system can be brought under its fold.

The major barriers cited to expand appropriate services to poor by financial service providers are the :

- Inadequate reach,
- higher cost of transactions
- and time taken in providing those services.
- reluctance overtakes acceptance in commercial banks
- Cooperatives and RRBs suffered from viability , capital and manpower problems
- 3 R's for credit- Right time - Right amount - Right purpose appears to have not been adhered to resulting in - Set back to expected Reach and Access, poverty alleviation, inclusive growth and livelihood promotion, Compounded by misuse of credit(Tenant farmers, high handed impersonation)
- High attrition rate in Business Correspondents due to poor incentives and viability issues
- Inadequate Financial literacy and technical knowledge
- Non-availability of adequate technology support

In short, the existing business model , with of brick & mortar bank branches 99,000 +, of ATMs 95,686,, of business correspondents engaged by banks 221,341 as of 31 March 2013, ofPoS machines installed 635,653 (Source: Reserve Bank of India Publications, 2012 & 2013) does not pass the test of convenience, reliability, flexibility and continuity and failed to make a major impact in the Financial Inclusion programmes.

The situation as explained above calls for some bold out-of-box initiatives .

In September 2013, the RBI constituted a committee to study 'Comprehensive financial services for small businesses and low income households' headed by Dr.NachiketMor,an RBI board member. . The focus of the committee was to recommend innovative solutions to the RBI to accelerate financial inclusion in unbanked and under-banked sections of the society in sustainable and cost effective way.

The committee submitted its report to the RBI report in January 2014. One of the key recommendations of the committee was to introduce specialized banks ('Payments Bank') to cater to the lower income groups and small businesses. The report also provided high level criteria to assess 'Fit and Proper' status of the Payments bank license aspirants.

The Committee laid down the following vision as part of its recommendations:

I Universal Electronic Bank Account (UEBA) for all Indians above the age of 18,years by January 1, 2016.

II ubiquitous access to payment services and deposit products at reasonable charges,

III sufficient access to affordable formal credit,

IV universal access to a range of deposit and investment products at reasonable charges,

V universal access to a range of insurance and risk management products at reasonable charges, and

VI right to suitability. The main recommendations are listed in Annexure 4.

To achieve this, a vertically differentiated banking system with payments banks for deposits and payments and wholesale banks for credit outreach. These banks need to have Rs.50 crore by way of capital, which is a tenth of what is applicable for new banks that are to be licensed. Aadhaar will be the prime driver towards rapid expansion in the number of bank accounts. Monitoring at the district level such as deposits and advances as a percentage of gross domestic product (GDP). Adjusted 50 per cent priority sector lending target with adjustments for sectors and regions based on difficulty in lending.

this report have been termed as too ambitious and unrealistic by some, they have nevertheless sparked an informed debate on creating a modern, inclusive financial system in India.

M. THE RECENT INITIATIVES FOR FINANCIAL INCLUSION

Reserve Bank of India have been proactive, liberal and supportive while formulating policies in order assist financial institutions to come up with innovative products so that a common man can also derive the fruits of financial inclusion.

These initiatives can be categorized under: a) Reach; b) Access; c) Products and d) Transactions

a) Reach

i) Branch expansion in rural areas: Branch authorisation has been relaxed to the extent that banks do not require prior permission to open branches in centres with population less than 1 lakh, which is subject to reporting. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres.

In the Annual Policy Statement for 2013-14, banks have been advised to consider frontloading (prioritizing) the opening of branches in unbanked rural centres over a three year cycle co-terminus with their FIPs. This is expected to facilitate the branch expansion in unbanked rural centres.

ii) Agent Banking- Business Correspondent/Business Facilitator Model: In January 2006, the Reserve Bank permitted banks to utilise the services of intermediaries in providing banking services through the use of business facilitators and business correspondents. The BC model allows banks to do 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem.

iii) Combination of Bank and BC structure to deliver Financial Inclusion: The idea is to have a combination of physical branch network and BCs for extending financial inclusion, especially in geographically dispersed areas. To ensure increased banking penetration and control over operations of BCs, banks have been advised to establish low cost branches in the form of intermediate brick and mortar structures in rural centres between the present base branch and BC locations, so as to provide support to a cluster of BCs (about 8-10 BCs) at a reasonable distance of about 3-4 kilometres.

b) Access

Relaxed KYC norms:

- Know Your Customer (KYC) requirements have been simplified to such an extent that small accounts can be opened with self certification in the presence of bank officials.
- RBI has allowed 'Aadhaar' to be used as one of the eligible documents for meeting the KYC requirement for opening a bank account.

c) Products

Bouquet of Financial services: In order to ensure that all the financial needs of the customers are met, we have advised banks to offer a minimum of four basic products, viz.

- A savings cum overdraft account
- A savings cum overdraft account
- A remittance product to facilitate EBT and other remittances, and
- Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC).

d) Transactions

Direct Benefit Transfer: The recent introduction of direct benefit transfer, leveraging the Aadhaar platform, will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans to route all social security payments through the banking network, using the Aadhaar based platform as a unique identifier of beneficiaries. In order to ensure smooth roll out of the Government's Direct Benefit Transfer (DBT) initiative, banks have been advised to:

- Open accounts of all eligible individuals in camp mode with the support of local Government authorities.
- Seed the existing and new accounts with Aadhaar numbers.
- Put in place an effective mechanism to monitor and review the progress in implementation of DBT.

Other Measures fostering Financial Inclusion

Jan-Dhan to Jan-Suraksha

Motivated by the account-opening success of the Pradhan Mantri Jan DhanYojana (PMJDY), a proposal has been put forward towards creating a universal social security system for all Indians, particularly the poor and the under-privileged. Termed as Jan-Suraksha, the social security program has been launched by current Prime Minister, Shri Modi. It contains three important parts:

a The Pradhan Mantri Suraksha BimaYojana to offer accident insurance of INR 200,000 ($3,165) for a premium of just INR 12 ($0.19) per year, or INR 1 (just under two cents) per month.

b The Pradhan MantriJeevanJyotiBimaYojana to offer life insurance coverage of INR 200,000 ($3,165). The premium will be INR 330 ($5.00) per year, or less than INR 1 (just under two cents) per day, for people between 18 and 50 years of age.

c The Atal Pension Yojana to provide a defined pension, dependent on the contribution amount and duration of contributions. To encourage people to join this scheme, the government will contribute 50% of the beneficiaries' premium limited to INR 1,000 ($16.00) each year, for five years, in the new accounts opened before December 31, 2015.

These programs provide coverage in the event of death or disability due to an accident, and the pension program addresses the income and security needs of the elderly. The ease with which individuals can enroll in the program - the premium can be deducted automatically from a subscriber's bank account-- has been recognized as a convenient delivery mechanism which could address the problem of a very low penetration of life or accident insurance and old age income security products in the country. As of May 11, 2015, banks had enrolled 63.3 million people under the three programs.

JAM for DBT: JAM or Jan-Dhan, Aadhar and Mobile, the idea behind it is that the transfer of government benefits will comprise of all three, i.e. a bank account under Jan-Dhan, Aadhar number or biometric ID and a mobile phone number. It is referred as JAM Trinity- Jan Dhan, Aadhar and Mobile to implement direct transfer of benefits. This mechanism will allow to transfer benefits in a leakage-proof, well-targeted and cashless manner.

PaHaL: The Direct Benefit Transfer for LPG (DBTL) program PratyakshHanstantritLabh (PaHaL) is the first digitized DBT program of the current Central Government formed under the leadership of Shri Narendra Modi. It was started in 54 districts in November, 2014 and in the rest of India in January, 2015. Those with an Aadhaar number can link their Aadhaar number to their bank accounts and LPG consumer number to get the subsidy, those without can submit their bank details. There are close to 130 million PaHalL beneficiaries and over INR 122 billion (close to $ 2 billion) have been disbursed through the program. This can serve as an example on how the government can digitize cash transfers.

Micro Units Development Refinance Agency (Mudra) Bank

The MUDRA Bank is launched on 8th of April, 2015. It is being set up through a statutory enactment and will be responsible for regulating and refinancing MFIs through a Pradhan Mantri MUDRA Yojana. It will cater to the almost 51 million micro and small businesses who employ about 20% of the country's labour force in the manufacturing, trading, and services industries. These individuals are spread all across the country and usually do not have access to institutional credit. MUDRA Bank will be set up with a capital allocation of INR 20,000 crore ($3.2 billion) and a credit guarantee fund of INR 3,000 crore ($480 million). MUDRA will partner with local coordinators to provide financing to "last mile financiers" of small entrepreneurs and businesses. MUDRA will initially started as a department of Small Industries Development Bank of India (SIDBI), a non-independent financial institution aimed aid aiding the growth and development of micro, small and medium-scale enterprises (MSME) in India. Its role is to promote and finance the small-scale sector, implement government plans and coordinate with other organizations. The primary product of MUDRA will be refinancing/lending to micro businesses.

Unified Payments Interface (UPI)

National Payments Corporation of India (NPCI) launched its unified payments interface on 18th February,2015.

The interface will allow account holders across banks to send and receive money from their smartphones using just their Aadhaar unique identity number, mobile phone number or virtual payments address without entering bank account details.

Mobile phones will soon double up as virtual debit cards.Any kind of payment, including for shopping and paying taxi fares, can be done using an application downloaded on a smartphone once all banks adopt the system.

UPI is an additional layer of payments architecture built on the Immediate Payments System (IMPS) which will allow interoperability between different payments systems. Given the ease with which this enables people to transact digitally, it has the potential to dramatically reduce the use of cash and change the way payments are made in the country.

N. OBSERVATIONS/ANALYSIS OF RECENT DEVELOPMENTS.

As per the Data given in Annexure-2, table Iv.7 and in Annexure- 3,shows that,In the First Phase of FI programme Thrust(2010-13)Reserve bank of India has taken significant steps in scaling up the financial inclusion programme and spreading Financial Literacy. With the completion of the first phase, a large banking network has been created and a large number of bank accounts have also been opened

I The number of banking outlets has gone up to nearly 3,84,000. Out of these, 1,15,350 banking outlets were opened during 2013-14.

II Nearly 5,300 rural branches were opened during the last one year. Out of these, nearly 4,600 branches were opened in unbanked rural centres (Tier V and Tier VI centres).

III Nearly 33,500 BC outlets were opened in urban locations during the year taking the total number of BC outlets in urban locations to 60,730 as at the end of March 2014.

IV More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million.

In order to continue with the process of ensuring meaningful access to banking services to the excluded, banks were advised to draw up fresh three-year FIPs for 2013-16..

Reserve Bank up-scales financial literacy activities

The Reserve Bank's financial literacy efforts are channelled through banks in the form of a mass scale literacy campaign which includes conducting financial literacy camps in unbanked locations. For this purpose, all the financial literacy centres (FLCs) and rural branches of SCBs are advised to undertake financial literacy activities in the form of awareness camps at least once a month., the Reserve Bank has issued comprehensive financial literacy material consisting of a Financial Literacy Guide, a Financial Diary and a set of 16 posters which is now available in 13 languages. The Reserve Bank has advised all banks including RRBs to use the financial literacy material as standard curriculum to impart basic conceptual understanding of financial products and services.

A review of the progress made by FLCs reveals that 514 FLCs were added during 2012-14 taking the total number of FLCs from 428 as at end of March 2012 to 942 as at end March 2014.
These FLCs are creating awareness about banking products and services through indoor and outdoor activities.

Unprecedented success OF Jan DhanYojana Scheme
Government's Jan DhanYojana (JDY), announced in 2014, has met with unprecentedsuccess.According to official statements from the Finance Ministry, the Pradhan Mantri Jan DhanYojana has met with unprecedented success. On the first day of the launch over 1.5 crore accounts were opened in banks under the scheme - setting a record of sorts. By October 22, 2014, reports suggest that 6.47 crore bank accounts have been opened under the scheme.

By 4th Nov.,2015 the number of accounts opened touched 19.13 crores with a balance outstanding of over 26,000 crores.
Prior to the launch of the scheme, this money would have remained out of the scope of the mainstream banking sector.

The mojorconcerns of duplication of accounts due to lack of KYC ,multiple insurance policies, provision of overdraft facility without adequate documentation have not been addressed yet. Linking the accounts to Aadhar cards looks like the only feasible solution and banks are working in this direction.

While more than half of these accounts have a zero ,there is a growing optimism that this program is much stronger than earlier efforts. Further, each account includes a debit card, an overdraft facility, and bundled insurance. To step-up its usage, the government has started disbursing subsidy payments into these accounts.

Emergence of the E New Univesal, Payment and Small Finance Banks:

a. The 2013 guidelines require new banks to open at least 25% of their branches in unbanked rural areas. The Committee noted that the existing private sector banks have less than 20% of their branches in such areas.
   Bandhan and IDFC are the first lot of banks to get licence and start operations under the new guidelines.
b. The Reserve Bank of India has granted, in August 2015, "in-principle" approval to the 11 applicants to set up payments banks under the Guidelines for Licensing of Payments Banks issued on November 27, 2014 (Guidelines).
c. The Reserve Bank of India (RBI) on September 16th,2015 granted 10 entities in-principle licences to open so-called small finance banks-another move towards expanding access to financial services in rural and semi-urban areas. Majority of them are erstwhile MFIs.

O. Constraints/Challenges for financial inclusion for the New Banks:

i. LAST MILE CONNECTIVITY PROBLEM - HIGH TRANSACTION COST PROBLEM causing viability. apossible solution is adopting appropriate technology to scale up the operations to achieve viability

ii. Create demand responsive saving and credit products and not just supply driven

iii. Adherng to the 3 Rs of credit Right time - Right amount - Right purpose toprevinput and credit yield imbalance.

iv. Bringing a change in the mindset of staff to work at grassroot level and motivating them.

Thus, the game is all set to take India on the trajectory of Financial Inclusion and with joint efforts of government and private sector, the days are not far when every household across the length and breadth of the country will have a bank account. Everyone will be able to derive the fruits of economic development and every single citizen will play a pivotal role in economic growth of this country by contributing whatever they can through their bank accounts, as it is public money that is utilized for infrastructure development and gross domestic capital formation. The metamorphosis i.e. from 'Financial Exclusion' to 'Financial Inclusion' is on the way.

Emergence of the new generation of Universal Banks like Bandhan, IDFC and Payment banks like Department of POSTs, AIR TEL, Vodafone and the small finance banks are expected to take the financial inclusion thrust to the next level and help achieving the desired results.

Suggestions:

There should be a multi-pronged approach to tackle the financial exclusion issue and the suggestions for consideration are can be broadly categorised asunder:

- Structural
- Regulatory
- Physical reach
- Product Differentiation
- Incentivisation
- Technological
- Training and Financial Literacy
- Media campaign
- Govt. Monitoring

A. Structural:

1. The Banks operating at Base of Pyramidof Banking System like Urban Cooperatives, State Cooperatives and RRBs need to be converted into Banking Companies and are made to comply uniformly only with Companies Act and Banking Regulation Act, not any other Central and State Acts as opined by Mr.V.Jaganmohan in his article given under references.

2. RBI has taken up the licensing of new Small Finance Banks which is a welcome initiative. RBI should license more banks in every state.
3. Mergers and amalgamation of rural and semi-urban branches among the local entities may be encouraged.

B. Regulatory:

1. Lowering SLR and CRR requirements for Banks operating in Rural areas would give more lendable resources which would help in financial inclusion.
2. A lower limit of say Rs.2 lacs for Rural and Rs.5 lacs for Semi-urban, irrespective of purpose, tobe categorized under Priority sector would facilitate more credit expansion, as opined

C. Physical Reach:

i. Preference should be given for a physical branch. Post offices with their network of amore than 1,50,000 offices and the , the telecom companies with their extensive reach, more than 5,00,000 fair price shops an outlet of public distribution system with some semblance of government approval, can be explored, especially in rural areas. Scaling up of BC model operations also needed.

It is observed that, Reserve Bank of India has already taken a big leap in this direction by giving payment bank licences to Department of posts and Telecom companies like Airtel, Vodafone.

ii. Role of post offices and telecom companies
The existing extensive rural network of post offices and leading telecom companies like Airtel and vodafone can help them achieve the cause of financial inclusion at minimum cost and maximum synergies.. In India, there are nearly 1,54,856 post offices as on March 31, 2013, with nearly ninety percent in rural areas

iii. Role of Fair Price Shops
Fair Price Shops can play an important role in the progress of the development of financial inclusion as there is a large network of fair price shops in the country which is well above the bank branch network including kiosks and BCs. Also, many of the fair price shop owners are familiar with the rural people which will again ensure trust in the banking.

Number of Fair Price Shops in 2011-Total 5,04,715 (Source: Ministry of Consumer Affairs, Food and Public Distribution (2011).

Similar to the post offices, network of fair price shops can be utilized by launching a joint venture of banks and Food Corporation of India to install devices which will be used for both Public Distribution System (PDS) and banking transactions through smart card and biometric identification. The launch of common POS will not only ramp up the financial inclusion process but also reduce the cost as the same device is being used for dual purposes.

v. Business Correspondents

- A BC need to be rebranded as a banker against the existing image of a travelling salesman which would enhance the acceptability of BCs among general public. This could be achieved by a contractual arrangement, thereby giving a semi-official status of a bank employee to a BC. This would reduce the attrition rates of BCs and increase their loyalty towards the profession.
- The possibility of appointing house-wives, people with limited handicap, retired personnel, school teachers could be tapped as BCs could also be considered as that might reduce the attrition rate.
- Allowing BCs to offer additional financial products like insurance and mutual funds would increase their scope.

j. TRAINING AND FINANCIAL LITERACY

1. There could be regular interactive training workshops organised in the post offices or fair price shops or gram panchayat offices on financial products suited to the local population.
2. Methods of financial literacy need to be changed from distributing printed literature to audio and visual media such as radio and TV programs, especially in local languages.
3. Financial literacy needs to be given importance in schools, and student small saving programs, needs to be encouraged.
4. Banks could also look at skill development by conducting regular, structured training sessions for Business Correspondents.

5. Common consumer knowledge in rural areas about dialing to a toll-free number should be leveraged to provide introduction to financial literacy as well as instructing people on steps to use mobile banking.

4. Banks should educate their staff and BCs about latest developments in mobile banking, and mandate them to promote these facilities during financial literacy campaigns in rural areas.

k. Product Differentiation:

There is a need to have different schemes for rural and urban areas. Distinct schemes can be made on the basis of nature of employment of different people. For example, daily wage laborers can be allowed to make tiny deposits on daily basis - a special RD scheme for daily wage laborers can be introduced.

l. Technological:

i. ATMs

- Encouraging banking habits amongst the unbanked masses by installing audio-video enabled
- ATMs to announce simple instructions in the local language to assist the customer in the
- unbanked areas, could be considered.
- Digitization and automation of the same would not only quicken the new account opening process but also enable better utilization of bank resources. Checks and validations could be put in place in the automated solution to further reduce the overhead allowing for paper less account opening.
- It is important that adequate infrastructure such as digital and physical connectivity, uninterrupted power supply, etc. are available. Different models involving handheld devices with smart cards, mobiles, mini ATMs, etc are being tried out and it is necessary that they are integrated with the backend CBS system for scaling up. A good delivery model is also needed.
- Though the cost of administering small ticket personal transactions is high, these can be brought down if banks effectively leverage ICT solutions. This can be supplemented through product innovation with superior cost efficiency.

ii. Mobile Phones

Mobile banking has tremendous potential. Companies like Airtel and Vodafone who got payment bank licences are perfectly positioned to explore the opportunities

- Common mobile banking applications with minimal usage of text should be developed leveraging channels such as SMS or GPRS. These applications should be ser friendly for the rural mass.
- The proposal to disburse limited amounts of credit to customers through the telecom channel must be revisited and may be restricted to users of open wallet accounts. This will encourage people to borrow from formal channels, instead of small time moneylenders and also add to revenues of telecom companies, who in-turn can reduce transaction charges for their customers. Banks and MFIs, which are authorized to lend credit, can partner with telecom companies. On an aggregate level, this will increase the demand for mobile banking manifold.

m. Media Campaigns:

- Targeted advertisement campaigns should be devised for mass media and locally effective media
- Government agencies should actively participate in these campaigns that communicate mobile banking to be user friendly and safe.

The immediate challenge for banks, will be acquiring the technology needed to facilitate more financial inclusion.Also, banks need to convert the old and dormant accounts into the new financial inclusion accounts in order to get the accident coverage and overdraft facility for the account holders. This means that some of the work done on financial inclusion so far will have to be duplicated.

n. Incentivisation:

- There is a need for incentivising BCs and the incentives should be customized based on the effort which might be required to operate in a specific area and output generated by them
- Banks should revise their commission schemes, incentivizing BCs in increasing mobile banking registrations in their respective territories.

o. Govt.monioring Efforts:

1. RBI should publish an exclusive annual report on Financial Inclusion encompassing the metro, urban and semi-urban and rural business of commercial banks and analyze the trends in rural - urban gaps and the measure being initiated by RBI to reduce these gaps.
2. Ministry of Finance should also submit an annual white paper of Financial Inclusion in all its aspects to Parliament to encourage the public discourse in the subject.
3. The Government should commission an audit system for banks, telecom operators and handset Manufacturers to certify security levels of mobile banking services, across various channels.

Conclusion:

India's continued growth can only be assured "if steps are taken to ensure that social and economic development is inclusive." Financial inclusion has moved into public consciousness only over the past decade or so. "Financial inclusion can no longer be treated as a fringe subject, It has to be recognized as an important part of the mainstream thinking on economic development."

"There is much more to financial inclusion" than simply opening accounts, the state needs to put its resources to ensure that the infrastructure backbone is available to help the poor to transact without a hefty fee.

The NachiketMor panel had suggested that every Indian would be provided with a bank account by January 2016. Two of its members - Axis Bank CEO Shikha Sharma and Bank of Baroda chairman and managing director S.S. Mundra - felt that January 2018 was more realistic.

~~To make this dream come true,all stakeholders will have to work together through sound and~~

purposeful collaborations to ensure appropriate ecosystem development. This would include government, both Central and State, Regulators, Financial Institutions, Industry Associations, Technology Players, Corporates, NGOs, SHGs, Civic Society, etc.

Local and national level organizations have to ensure that these partnerships look at both commercial and social aspects to help achieve scale, sustainability and desired impact. This collaborative model will have to tackle exclusion by stimulating demand for appropriate financial products, services and advice with appropriate delivery mechanism and by ensuring that there is a supply of appropriate and affordable services available to those that need them.

Mindset, cultural and attitudinal changes at grass roots and cutting edge technology levels of branches of banks are needed to impart organisational resilience and flexibility. Banks should institute systems of reward and recognition for personnel initiating, ideating, innovating and successfully executing new products and services in the rural areas.

To create an effective roadmap:

Govt. to decide on "Insulating policy from chaotic pressures of political democracy"

RBI to apply - a reality check on figures of inclusiveness and growth

Banks to realize - credit is only a means but not an end,) and given the scale of the financial inclusion program, a larger network of business correspondent agents is and incentivising them.

The new and existing banks to acquiree the appropriate technology needed to facilitate more financial inclusion

The success of JaanDhanYojana is a worthwhile effort. Such efforts should be sustained to achieve the large scale of financial inclusion requirements.

THE THEME FOR ALL STAKEHOLDERS SHOULD BE "FINANCIAL INCLUSION IS NOT AN OPTION BUT A COMPULSION" AND THE MOTTO SHOULD BE " LET US ALL WORK TOGETHER TOWARDS THE DREAM"

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METRICS FOR THE BLUE COLLAR - A NEGLECTED CAUSE

A.N.Ravichandran, Director, Premium Management & Information Services Pvt Ltd

Abstract

Thisarticle refers to the cost of labour employed in industryand highlights how it has not received the attention due to it in manufacturingindustries the world over. The consequences of this neglect have been serious andfar reaching. Slowly but surely it has eroded the credibility of several economies as manufacturing destinations.

The purpose of this article is to develop a method of measurement of this important resource and not to prove any hypothesis. In other words, data can be collected from representative industry samples to test various aspects of what is presented here. Thus the article provides the grounds and scope for further research on metrics for the blue collar employees.

Introduction

A common challenge faced by business firms these days is how to survive and to do so in a sustainable way. Almost all markets served by firms have matured. This means that the number of players are too many, competition is too intense and 'there is no free lunch' -a euphemism for saying that you cannot be inefficient and hope to survive. Efficiency fundamentally refers to ability to minimize the time and cost of operations.

In the race for survival, manufacturing technology and delivered quality have become hygiene factors. If you do not have the relevant technology of manufacturing, your products would get outdated fast; and if the quality is not right, in a world where choice abounds, your customer is going to look elsewhere to satisfy his needs. Hence organizations are constantly addressing and updating these hygiene factors. The challenge that is left to be discussed is how to offer the greatest value products for the least competitive price.

Management of any progressive contemporary business has become quite sophisticated. Formal and informal structures such as management forums and task forces are constantly created to monitor and control result delivery of every identifiable agenda item.

Management of costs is one such important agenda in the list of costs. Material cost is without doubt the highest. This article does not argue the relative inefficiencies of this cost; however, experience points to the fact that metrics are already in place to review and control these and other such costs.

Consider this statistic: For a well-known Indian company that is manufacturing 70 percent of the parts for the BMW motorcycle the average cost of a worker would be about 5 Euros per day in India. Instead, if these parts were to be manufactured in Germany, the cost would be 100 Euros per worker per day! That is how dramatic the differential is, notwithstanding debates on purchase price parities.

Small wonder therefore that Europe has, over a period of time, lost its manufacturing edge to developing economies. A similar but less painful situation prevails in the United States of America as well. These are economies that lead in technology development but have lost their manufacturing edge.

The single identified reason for this huge paradigm shift is the failure to predict and/or manage manpower costs.

In the past decade, China, which used to lead the world in deploying inexpensive labor, has significantly lost this advantage. Today the average wage is US $ 600 or more per month. That is almost four times the wages in most parts of India.

Working through the Logic

People costs can be of two Kinds .They are:

1 'White Collar' costs which is incurred on management & staff

2 'Blue Collar' cost which is incurred on labour directly.

Staff cost increases per annum are never larger than around 10 percent. However direct labor cost increases are often increasing out of proportion to increases in manufacturing output. Direct labor cost increases are on many counts such as:

a. Regular annual increase in wages;
b. Increase in the number of people, which is demanded as a result of increase in output;
c. Wage negotiations with the unions, which take average wages to the next higher level every three to five years;
d. The pressure of bringing contract labor on par with permanent employees:
e. Welfare costs, subsidy costs, and so on.

From the author's own experience average annual wage increases can be as high as 30 percent on account of these factors. At the same time, seldom does production increase by more than 10 percent per annum. This implies that wage cost as a percentage of sales is constantly rising. Hence developing a metric linking manpower increases as well as the total wage bill increases with an increase in activity and output levels becomes an all important task, aiding the dialogue between top management and unit managements.

Methodology:

Coming to the methodology the cost component of wages and salaries has to be measured as a percentage of production/ sales. This data has to be benchmarked with competitors' data in order to get leads be a step ahead in the competition. We needs also explore ways and means of reducing manpower intake. For this we need to finely correlate three things. They are:

1. Process improvements and manpower reduction,
2. Automations, especially, low cost automations leading to manpower reduction, and
3. Increases in labor productivity leading to manpower reduction

It may be noted that if the organization has several manufacturing units metrics will have to originate from each unit and be consolidated at the company level. Approval for increase in manpower should be a negotiated process involving the head of each unit and the CEO. Further, the metrics should facilitate this negotiation and address several issues beyond just manpower, such as process improvements, technology inputs, labor relations, employee welfare and so on.

Stages in Developing Metrics

The following steps are required to be taken as part of the creation of metrics as mentioned before.

Step 1.

Create a table that contains data for the past three years on achievements and challenges as shown in the table 1. This table sets the backdrop against which manpower data is presented and discussed.

Table1: Achievements and Challenges

ACHIEVEMENTS AND CHALLENGES

1. At least three achievements by management as well as in the labor front to be highlighted

2. Top 2 Challenges faced during last 1 year

MANAGEMENT
At least three challenges faced to be highlighted
ON WORKMEN / IR FRONT
At least three challenges faced in the last year to be highlighted

3. Top 2 Future Challenges & Strategies planned to overcome them

MANAGEMENT
Three future challenges
ON WORKMEN / IR FRONT
Three future challenges

In developing the above table the following three points need to be kept in mind. They are: (1) all parameters finally relate to overall business results. Hence it is important to fill up the above template carefully.(2) Data on overall business challenges as well as those that relate to issues on manpower matters that have a bearing on business results should be captured. (3)The contents of the template are indicative, but the focus is on how internal and external environment affect manpower induction, reduction, production efficiency and such parameters.

Step 2.

II. Create an aspiration for excellence in each team. In a multi-unit firm, create also a sense of competition between units.

Table2: Total Manpower

									UNIT 1 (Data has been masked to zeros)			
TOTAL MANPOWER FOR THE UNIT												
1st April to 31st March)												
MANPOWER (Nos. & Cost)												
CATEGORY	YEAR -3		YEAR -2		YEAR -1		TARGETS FOR NEXT 3 YEARS					
							THIS YEAR		NEXT YEAR		2 YEARS HENCE	
	Nos. On Roll	Cost (Rs. in lacs)	Nos. On Roll	Cost (Rs. in lacs)	Nos. On Roll	Cost (Rs. in lacs)	Nos. On Roll	Cost (Rs. in lacs)	Nos. On Roll	Cost (Rs. in lacs)	Nos. On Roll	Cost (Rs. in lacs)
MANAGEMENT	0	0	0	0	0	0	0	0	0	0	0	0
STAFF	0	0	0	0	0	0	0	0	0	0	0	0
Sub-Total		0	0	0	0	0	0	0	0	0	0	0
WORKMEN (Permanent)	0	0	0	0	0	0	0	0	0	0	0	0
WORKMENother categories	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
Sub-Total	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0	**0**	0	0	0	0	0

Data for three years is presented above followed by the projected requirements of the next three years. The longer the period for which data is captured and the more rigorous the data the better. The template is a summary of all the manpower related expenditures in each unit; hence there is clarity and transparency while looking at future requirements.

Table3: Labor Productivity In Units Per Person Per Year

CATEGORY		YEAR - 3 UNITS	YEAR - 2 UNITS	YEAR - 1 UNITS	THIS YEAR UNITS	NEXT YEAR UNITS	2 YEARS HENCE UNITS	IMPROVEMENT IN UNITS AND PERCENTAGE IN 3 YRS
DIRECT LABOR	ITEM 1 ITEM 2							
TOTAL LABOR	ITEM 1 ITEM 2							
TOTAL LABOR BILL (X)								
TOTAL PRODUCTION (Y)								
TOTAL SALES (Z)								
X/Y PERCENT								
X/Z PERCENT								

1. Using the previous template, the total labor cost is arrived at for two categories. They are a. the labor involved in production and b.the overall labor cost of the unit.

1. A unit may have more than one product line. Different product lines adopt different manufacturing processes and hence, manpower deployment will be different.
2. The labor cost is then computed as a percentage of production as well as sales expressed as a Rupee value. Thus we can arrive at different types of measures of labor costs as a percentage of output.

Step 3. III. Capturing data about relevant competition

(Data is available for listed firms; for others, knowledge of experts in the field should be used.)

Table4: Industry Benchmarking

										TOTAL FIRM (data has been masked to zeros)					
INDUSTRY BENCHMARKING															
Salary & Wage Costs															
	OUR BUSINESSES					COMPETITION									
	Net Sales	PRODN	TOTAL EXPENDITURE ON EMPLOYEES			NAME OF COMPETITOR 1					NAME OF COMPETITOR 2				
YEAR	(Rs.in Lacs)	(Rs.in Lacs)	(Rs.in Lacs)	%age of	%age of	Net Sales	PRODN	TOTAL EXPENDITURE ON EMPLOYEES			Net Sales	PRODN	TOTAL EXPENDITURE ON EMPLOYEES		
				Net Sale	PRODN	(Rs.in Lacs)	(Rs.in Lacs)	(Rs.in Lacs)	%age of	%age of	(Rs.in Lacs)	(Rs.in Lacs)	(Rs.in Lacs)	%age of	%age of
									Net Sale	PRODN				Net Sale	PRODN
YEAR - 3	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0
YEAR - 2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
YEAR - 1	0	0	0	0	0			0							
Top 3 Strategies to be Best in Industry															
EXAMPLES Multiskilling Low cost automation Methods improvement Value Stream mapping															

In the above table, all the compiled data is compared against similar data of the competitor. It is to be noted that a firm has to retain and improve on its production efficiency on a standalone basis. Comparative performance being more relevant, we will see how well the firm is doing with respect to its relevant competition. Finally the dialogue extends to specific medium-and long-term measures for process improvements that will perforce improve labor productivity resulting in increased production with less than proportionate increase in manpower.

Notes on the Tables and Further Points

1. We started with achievements and challenges. The idea here is to focus on overall business challenges and correlate these to manpower related issues. It is important to link business achievements and challenges to challenges posed by the human resources dimension.

2. In table 2 data relating to the past three years is presented to help understand the trends visible in the numbers as well as the total cost of deployment. It is to be noted that this summary table is the resultant of a systematic database that captures all costs adding up to the total costs. Hence it presupposes the existence of rigorous systems that help capture all forms of relevant expenditure. With this data as the basis, each unit projects its man-power requirements as well as total costs, the idea being to correlate the total labor cost to the activity or output level.

3. The table 3 deals with measurement of labor productivity pertaining to both historic data as well as targets for the future, with improvements quantified.
4. In each unit, two types of manpower, direct as well as indirect, are represented. Productivity is presented corresponding to each product line leading to finer measurability. Remember that heterogeneous data is difficult to measure and control.

   Further, in the same table, production as well as sales data for the previous three years is presented as well as targeted increases.

The total labor cost is then measured as a percentage of the cost of production as well as sales.

5. In table 4, competitor data comparisons will have to be done at the firm level. It is not too relevant at unit levels. Competitive data is easily obtainable for listed firms from published data. The marketing teams will be in a position to collect data about unlisted firms reliably from secondary sources.

   Apart from the above data, as far as workers are concerned, the following data will have to be rigorously presented in thesame formats for the following cost elements.

i. All subsidies such as medical allowance, canteen and other welfare measures. Subsidies become expensive progressively as the costs of procurement keep going up but the worker continues to pay the same rupee amount. This remains a big challenge for older firms as subsidy amounts that were decided a few decades ago remain unchallenged and It is tough to keep moving them upwards depending on the cost of inflation.

   The subsidies can then be made part of the overall Cost to Company of the worker and merged with the compensation. This will ensure subsidy costs do not get carried forward into the future.

ii. Overtime analysis has to be done and targets given for reduction.
iii. Absenteeism has to be analyzed and ways and measures for improvement presented.

Conclusion:

In designing and presenting these four tables/ templates I am giving an apparently simple method of measurement. The scope can be enlarged to whatever detail that a firm may want to go into. Information technology enables the capturing of these data; over a period of time, both at the detailed level as well as at the macro level, this method serves as an excellent management control tool to keep under check what can be the most challenging and the fastest rising cost of the manufacturing industry.

It may also be noted that labor productivity increases are achieved through a great deal of rigor in those processes that pertain to manufacturing. Automation, especially low cost automation, has a wide scope but has to be deployed diligently, in order for them to yield success in containing the cost of labor. Multi-skilling is another systematic approach that can yield huge dividends. Value Stream mapping approaches can be intelligently deployed to further obtain handsome improvements in productivity

Given the challenges faced by countries in deploying and managing Labor, which impacts growth through manufacturing as well as major policy agenda such as the Prime Minister's 'Make in India' program, defining and measuring Labor Cost and Labor Productivity becomes a key differentiator.

In his 35 years of association with the manufacturing industry the author has found that both the additions of people as well as the multidimensional increases that wages undergo are seldom negotiated scientifically, leading to gradual erosion of margins in manufacturing.

The China example was highlighted to show how there has been a quadrupling of costs over the past decade.

In India too, the awareness of the lower strata of the population about their fundamental rights is growing and some pockets in our country have already become super high cost zones prohibiting any firm to set up shop. A related subject is that of contract labor as the discrepancies in compensation has remained a widely debated subject. The indications are that labor compensations will keep moving northwards and very fast.

The entire European region and quite a few of the developed countries have lost their edge in manufacturing largely due to this predominant element. In a global economy, costs of consumption which refers to cost of materials cannot vary much from one country to another providing the tax structures are comparable. No forward looking economy will ignore the aspect of competitiveness when it comes to material costs. But labor costs can make or mar a whole economy. All other costs of manufacturing tend to equalize in due course.

It is hoped that the Indian Industry will grapple with this challenge that has not been managed well by several economies and take the first mover advantage in doing so. It is further hoped that the measurement tools I have suggested will be well understood for their potency in addressing this most important challenge and the Prime Minister's strident call for 'MAKE IN INDIA' becomes a crowning glory of the industry and the country.

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FINANCIAL INCLUSION IN INDIA : A BIBLIOGRAPHY

A.Mallikarjuna, Librarian, Aurora's Business School, Panjagutta, Hyderabad-82 E-mail: mallikarjun@absi.edu.in

Introduction:

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

Following are some of the important bibliographical sources that have either described or analysed or critiqued the phenomenon of financial inclusion. A perusal of these sources will help researchers on financial inclusion to carry meaningful research. It may be noted that democracy will not carry meaning unless people are included in sharing the material prosperity of the country by getting included in the financial aspects.

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