Beyond Hoopla : Simply Financial Inclusion

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Financial Inclusion : A Policy Priority or Chaotic Confluence?

What next of financial inclusion? This seems to be an obvious question when there is a deceleration in the momentum for engaging different segments of un(der) banked customers at bottom of the pyramid, primarily because different stakeholders in financial inclusion value chain have different answers to the common question of financial exclusion. Public Policy vouches financial inclusion as a national priority and the mainstream financial institutions in India carry the baton (albeit with a caution). In-spite of the proclaimed priority of financial inclusion, financial exclusion in India seem to be widening and the on going efforts hurtling amid theatrical debates and confabulations over multiple front end devices, ultra-low cost delivery models, razor thin transaction costs and innovative pilots. If all this has helped anything, it is the confusion and chaos in attempt of reinventing the wheel and therefore aided the 'inclusion hiatus' which a developing country like India can ill afford. A quick snapshot of status of financial exclusion explains the story. (Table below)

FI Parameter	Percentage
Account at formal financial Institution	35%
Account at a formal financial institution, income, bottom 40%	27%
Accounts used to receive wages	8%
Accounts used to receive Govt. payments	4%
Loans from a financial institution in past year	8%
Loans from family or friends in past one year	20%
Source : The World Bank, FIndex 2012.	

Merely 35% of the Indian adults (above the age of 15 years) have a bank account and the percentage is even low in the bottom 40% says recently released World Bank FIndex 2012. According to the FIndex 2012 report, prominent barrier to use formal bank accounts (globally) is not the absence of ultra low cost technology or absence of identification documents but having “not enough money” to save.

This may be due to erratic cash-flows of poor households or simply the absence of financial literacy among end customers. This has little to do with the innovative authentication systems, front end related debate and online-offline model talks which seem to be flavor of the inclusion parleys at the highest echelons of business and policy. If financial inclusion needs anything, it is direct engagement with the last mile customer by offering appropriate financial products and services including financial literacy.

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Beacon of Financial Inclusion : Reserve Bank of India - "The Liberal Regulator"

In the year 2005, the then RBI Governor Dr. Yaga Venugopal Reddy coined the term financial inclusion and the vision of social inclusion of un(der) banked poor and vulnerable masses gained momentum. The idea was to handhold un(der) banked into mainstream banking network, link them with the grid of formal financial system and offer them access to finance through a bouquet of multiple products and services including savings, insurance, Electronic Benefit Transfers (EBTs), credit and not just popular services like P2P remittances.

In order to realise this goal, RBI in 2006 allowed banks to utilize services of Business Correspondents (BCs) and Business Facilitators (BFs) which was a watershed step in accelerating financial inclusion agenda in India, as in history of the Indian banking system, financial institutions never went to the doorstep of customer (particularly rural customers) to offer banking services; RBI made it happen!

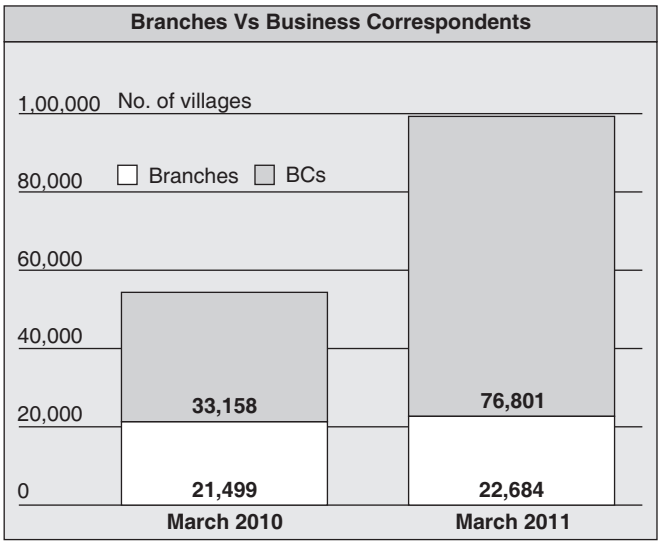
RBI played the role of a proactive and liberal regulator over the period of time. It facilitated and even expanded scope of BC guidelines from time to time. RBI's response was dynamic and accommodating, particularly in 2010 when it permitted for-profit business entities to offer BC services.

All the good intentions of RBI along with policy push from Government of India have yielded results and BC's have put up an impressive show. However, ironically before the model (BC) could stabilize, a chaotic confluence of devices, technology, usability and viability debate has besieged the model and has created an inclusion vacuum in the system. Most of the mainstream financial institutions are being too cautious and follow compliance related objectives of financial inclusion which primarily involves offering No Frills Savings Accounts (NFAs) to end customers.

Interestingly a NFA in itself is not just a financial product but a financial menu card with a purpose to connect end customers with customized financial products & services. Unfortunately, in the current scenario menu is available not products, making it uninteresting for end-customers which ultimately has resulted into increased dormancy levels.

Last Mile Changemakers : Business Correspondents in India

Business Correspondent model as an alternate banking channel has brought a conspicuous change in the financial inclusion landscape of India. For the last five years, agent based BC model has played a pivotal role in furthering agenda of financial inclusion across nooks and corners of the country. From just 30,000 banking outlets in about 600,000 villages in India (5% penetration), BCs have helped in increasing the banking penetration to more than 1.07 lakh villages (around 20%). Out of around 80 million No Frills Accounts (NFAs) opened by banks, BCs have opened 50 million (around 72% of total NFAs). The table below shows the status of financial inclusion in numbers.



No. of Villages in India (inhabited)	600,000
No. of villages covered by banks	107000
No. of BCs empannedled by banks	58,361
Total No. of villages served by BCs	76,081
Total no. of No frills accounts opened by Banks	7.91 Crore
No. of No Frills accounts opened through BCs	5.02 Crore (approx 72%)
> 2000 population villages covered by banks	59,640
< 2000 population villages covered by banks	47,964
Total Unbanked (approx)	**41 Crore**

Source : RBI, 2011.

At a time when reams are being written on viability part of BCs and various players are toying with multiple ideas it is worth mentioning that the target populations for which BC model has been designed have proved themselves as "bankable and profitable". Illustrations could be borrowed from microfinance model of Grameen Bank of Bangladesh and Prof. Prahlad's theory of Gold at Bottom of the Pyramid for FMCG products.

On the issue of viability, we should not forget Regional Rural Banks (RRBs) story in India. RRBs were established as vehicle of financial inclusion in 1976, with the purpose to support credit led model of financial inclusion and support green revolution. Even though RRBs were jointly funded by Central and State Governments and sponsored by lead banks, break even period for RRBs was envisioned six to seven years, what are the reasons for us being impatient in case of BC model? In case of BCs such a support and patience seems to be vanishing.

It needs to be appreciated because of the fact that BC model is the only (non-community based) savings based model with an inbuilt functionality to offer diversified bouquet of financial services and products at door-step of last mile customers.

In India the BC model has a deeper and wider role-play in enabling total inclusion. However the actions which would expedite universal financial inclusion are changes in outlook of mainstream financial institutions from compliance based objectives to business based objectives. This means directly engaging end customers by offering multiple products over NFA menu and finally, a coherent scheme of implementation in tandem with vision of social inclusion without re-inventing the wheel.

Bibliography :

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Foreign exchange instruments

FX volume surveys report turnover by instrument. Instrument types include the following :

Spot transactions are single outright transactions that involve the exchange of two currencies at a rate agreed to on the date of the contract for value or delivery within typically two business days.

Outright forwards involve the exchange of two currencies at a rate agreed to on the date of the contract for value or delivery at some time in the future. This category also includes forward Foreign Exchange Agreement (FXA) transactions, Non-Deliverable Forwards (NDFs) and other forward contracts for differences.

Foreign exchange swaps involve the exchange of two currencies on a specific date at a rate agreed to at the time of the conclusion of the contract, and a reverse exchange of the same two currencies on a future date at a rate agreed to at the time of the contract. For measurement purposes, only the long leg of the swap is reported, so that each transaction is recorded only once.

Currency swaps involve the exchange of fixed or floating interest payments in two different currencies over the lifetime of the contract. Equal principal based on the initial spot rate is typically exchanged at the beginning and close of the contract.

Currency or foreign exchange options are contracts that give the right to buy or sell a currency with another currency at a specified exchange rate during or at the end of a specified time period.

Source : BIS Quarterly Review, March 2012.