

MARKETS IN MOTION

developments that matter in financial markets

Financial Outreach Initiatives

"If, during the last 60 years, banking has not been able to reach every corner of the country, it is because the language of the common people and that of the banking (industry) is different."

Dr D Subbarao, Governor, Reserve Bank of India

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Introduction

One of the crucial problems for the poor is that their income is not only low but also irregular. Access to financial tools such as savings products, payment services, remittances and insurance equips the poor with a greater capacity to increase or stabilize their income, strengthen their resilience to economic shocks, and build assets. Globally, more than two billion adults do not have access to formal or semi-formal financial services.

Innovative Approaches

Innovative modes of financial services delivery can have a transformative effect on poor households. A couple of examples of countries that are achieving rapid growth in financial access from innovative approaches are given below:

Kenya: In Kenya, the *MPesa* mobile phone money transfer service, operated by Safaricom, an affiliate of Vodafone, was first launched in March 2007 and by end-May 2009, *MPesa* had captured 6.5 million subscribers with 2 million daily transactions in Kenya alone. As a result, the access to banking services increased from 18.9 percent to 22.6 percent of adults between 2006 and 2009. Those with access to other formal services more than doubled in the same period from 7.5 percent to 17.9 percent, an increase largely attributable to *MPesa*. As of December 2010, *MPesa* had 13.3 million users, which was 57 percent of the adult population (over 15 years), i.e., 22 percent of Kenyans.

Brazil: Brazil, the fifth largest country in the world with a population of 201 million, covers 8.5 million square kilometers with 5,564 municipalities (as of 2008). Of the total population, almost 20 million live in states with population densities under 6.4 inhabitants per square kilometer (as of 2007), such as the Amazon region. Traditional bank branches in these areas are very expensive and sometimes difficult to get to—some towns are only accessible by boat or plane. But, since 2002, all municipalities have access to financial services.

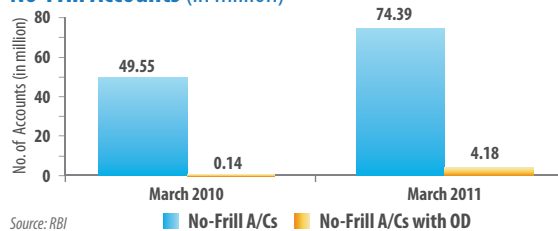
Brazil adopted a 'correspondent' banking model, often referred to as 'agent' banking, which has driven its success in expanding outreach of financial services into unbanked and remote areas. In 2000, there were 63,509 agents and by January 2010 the number had grown to 132,757, reaching even the remotest area of Brazil. The agents mostly provide bill payment services, including deposits, money transfers and receiving, verifying and forwarding documentation to provide credit and open checking accounts. Traditional bank branches now account for only 38 percent of the points of service in the nation's financial system. Even those living relatively close to a bank branch regularly use agents, like supermarkets or post offices, to conduct their transactions. Between 2000 and 2008, the correspondent banking system grew 85.5 percent while bank branches grew only 16.7 percent, clearly indicating the increasing presence of the channel.

India and Financial Inclusion

In India, almost 50 percent of the country's households are unbanked. Of the six-lakh villages in India, only approximately 50,000 have access to finance. India has the highest number of households (145 million) excluded from banking. Only 10 percent of the population has any kind of life insurance and 9.6 percent of the population has non-life insurance coverage. Banks have been asked to reach out to 73,000 villages across the country having a population of over 2,000 people by March 2012. The Government of India (GoI) has constituted the Financial Inclusion Fund (FIF) for meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and the Financial Inclusion Technology Fund (FITF) to meet the cost of technology adoption with an overall corpus of Rs 500 crore, to be contributed by the GoI, RBI and NABARD in the ratio of 40:40:20.

India is also adopting innovative approaches for financial outreach. No-frills accounts scheme (no pre-condition and low minimum balance maintenance) has helped people belonging to the weaker section to open bank accounts.

No-Frill Accounts (in million)



As of end-March 2011, 74.39 million no-frills accounts were opened by the banking system. While no-frills accounts have grown phenomenally, an important challenge before the banking system is to keep these accounts operational, as many such accounts are found to be dormant since the poor often find it difficult to save and deposit money into these accounts. In order to keep these accounts operational, banks have been advised to provide small overdrafts in such accounts. Till March 2011, banks provided overdrafts in 4.18 million accounts.

India's tele-density has improved significantly and the mobile subscriber base has grown from under two million at the end of FY2000 to touch 584 million at the end of FY2010 (average annual growth of nearly 76 percent during the ten-year period). Banks and financial institutions can leverage on the mobile platform for inclusive growth of banking.

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