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"The Cost of Financial Inclusion"

***Dr. Harsha Vijaykumar Jariwala,**
Assistant Professor
V.M. Patel Institute of Management
Ganpat University, North Gujarat

Prof. Devang Patel
Director, Xcellon School of Business
Ahmedabad, Gujarat

Abstract: *This case study is on the theme of financial inclusion, women empowerment and financial literacy. The case study is based on a real life experience of an illiterate woman of Gujarat State, living under Below Poverty Line (B.P.L.). The case highlights how initially a woman was persuaded to open a bank accountto make her financially empowered under the scheme of financial inclusion. Later, due to lack of knowledge of basis financial concepts (basic financial literacy), how she has become a victim of financial inclusion, instead of benefitting from it. To summarize, the case drives home the point how making a woman financially literate is perhaps much more important than just persuading her to open a bank account and getting included in the formal financial system of India.*

Keywords: *Financial Literacy, Financial Inclusion, Financial Education*

I. Case Study

Introduction

Ms. Harsha (Harsha), 38, was a certified trainer engaged in spreading the message of financial education. She had received the training certificate from a leading government authority with national acclaim that is engaged in the mission of spreading financial literacy among Indian masses.As a part of the certification, her task involved conducting financial education training programs and workshops for spreading the message of financial literacy which may help participants to improve their financial behavior. She was invited by Saraswati Self Help Group (which was operating for illiterate home makers of rural area of a district in the state of Gujarat, India) to conduct a series of financial education workshops, in which she was to explain and elaborateto a group of 50 home-makers the basics of personal finance, importance of financial planning, budgeting and basics of bankingetc.Her objective was also to motivate them to take active part in household financial management.

In the program, Harsha, was surprised when Geeta, an illiterate rural woman participant, in her mid twenties, showed her a letter from a leading public sector bank. The letter mentioned non-payment of installment dues from Geeta. Geeta briefed that all the dues were being paid on time. Harsha was wondering what would have happened? Why could the bank forward a letter for non-payment of dues? She also started thinking on the state of affairs for financial inclusion in the country. Geeta and other similar to her were farm workers and were earningdaily wages of Rs. 70 per day for 5 hours of work every day (8:00 a.m. to 1:00 p.m.).

The Financial Education Workshop

Once Harsha had received the invitation from Saraswati Self Help Group, She was wondering the level and sort of challenges she would face while addressing the audience. The biggest challenges to her were educating the un-educated on the topics of personal finance as these home makers had not even attended a regular school ever in their life. She was also prepared to go that extra mile in terms of preparing the content of the workshops series.

Noon time was selected to conduct the workshop sessions. It was perceived that the participants, who were usually women home makers, were a bit free from their daily household duties. Based on the schedule, on the first day of the workshop, the topic of budgeting was taught. Theparticipants were exposed to the basics of budgeting. It included content on the importance of a budget – household budget, preparation and implementation of budget etc. Proper care was taken to makeit an interactive session to retain the participants' interest. A small exercise on budgeting was also given to the participants.

On second day, the participants were taught details about banking transactions. The topics of types of bank accounts, depositing and withdrawing of money from a bank account, basic information about ATM etc. was provided. To ensure greater involvement from the participants, the technique of role play was adopted for gaining better understanding of performing various banking transactions.

Participants were encouraged to be vocal on their questions and doubts if any. Usually participants shared their doubts and concerns in local language. Harsha attempted to answer the questions with a logical ease and with giving examples. Majority of the participants faced concerns in not being to understand documents and processes which the Indian banking system followed. A few were also disturbed on account of the behaviour of the banking officials.

In a question answer session, one of the home makers, Geetarequested her to look at one letter. Harshafound that it was a notice of "non-payment of installment for the last 9 months"issued by one of the public sector bank. In the notice, the monthly amount of installment was shown as Rs. 2,342along with a penalty charge of Rs. 1500. Harshawas curious to know why Geetawhy had applied for a loan if she was not able to repay installment regularly,adding that a loan are ideally taken for some business or economic purpose.

The loan and the pending installments

Geeta told that she had paid all installments on time and presented the receipts of the same to her. Harshawent through the data on all receipts and found that theamount of installments written in the notice was paid by Geeta regularly as per the loan schedule. The receipts carried bank seal too. The saving bank account number was also correct. In fact, both of them checked a bank account number written by Geeta at the time of payment of monthly installment and verified the same with saving bank account number of Geeta. Harsha was wondering if all the installments were paid on time, then why had Geeta received the notice from the bank?

Harsha was eager to know what had happened? She had asked Geeta to explain in detail the sequence of events, beginning from the day on which she had applied for a loan.

The line-up of events

Ms. Geeta stated as under:

"Around fifteen months back, one bank officer approached our village and gathered some home-makers at a place. While addressing home-makers, he told that Government has decided to offer a loan up-toRs. 1,00,000under the scheme of "Financial Inclusion", where loan is given at a concessional rate of 12 per cent per annum to those home makers who are coming under the category of B.P.L. (Below Poverty Line) subject to condition that the loan should have been applied for some economic purpose".

Geeta reiterated, "I thought that this loan could be fruitfully utilized to start "paper bag" business. Hence, I have applied for a loan of Rs. 35,000. My loan was approved after a month. The sanctioned amount of theloan wasRs. 35,000 at an interestrate of 12 per cent per annum for aperiod of 18 months approximately. The bank officerasked me to open a saving bank account with a bank branch so that the sanctioned amount could be deposited in a saving bank account and there should be a loan account also….."

She has also added that "Accordingly, the sanctioned amount was credited in my newly opened saving bank account. Since the beginning, I found good number of orders for making paper bags. Ifound thatafter deducting all expenditures (including monthly installment amount), I could save a good amount of money per month".

Accordingly, she has started to deposit the money in the bank instead of keeping the same idle at home. She also wanted to repay all her debt with a bank. She has started to repay installments regularly. For this she told Harsha "I used to visitthe bank branch personally (for the purpose of payment of loan installment) with the cheque book, passbook and pay-in-slip issued to me. I found that the bank branch was having two queues for depositing and withdrawing money. I recalled that at the time of paying first three installments, I was standing in the left side queue because thecashier who was attending the bank customers of this queue was kindin nature and solvedcustomers' queries with a smiling face and also helped customers to fill the pay-in-slip if a customer had difficulties in filling it up properly".

Afterwards, when she went for paying fourth installment, she found that the cashier (of left side queue)had got transferred and moreover, the left side queue was too long. So, she used to stand in right side queue. She told with a whim on her face, "From that time onwards, whenever I went for paying monthly installment, I always stood in right side queue."

Harsha interrupted her and told her it was not about in which queue she stood or the cashier's mood. When Harsha inquired who had filled up the pay-in-slips for depositing the amount. Ms.Geeta replied as under:

"For the first month, I have filled up the required details in pay-in-slip while depositing the installment amount, with the help of another bank customer who was unknown to me, who met me in the same queue, in which I was standing. I have passed on all the documents of loan to him and told him "I come here to pay my monthly loan installment". He filled up accordingly by referring loan documents. He also added that, "madam, here on the passbooks, the saving bank account of the account holder is printed, whenever you want to deposit the money in your account, you may refer this bank account number".

Geeta in her own bewilderment told that "I did fill it approximately for three months by referring the filled-up and bank sealed pay-in-slip of the first installment which was filled up by un-known bank customer to whom I met in a queue. Afterwards, one day, I asked my 19 year old son Kishor (studying in standard 11-Commerce Stream) to fill up the pay-in-slip for the next installment. For this purpose, I gave him a saving bank account passbook and a copy of blank pay-in-slip".

Geeta suggested that she was happy to find that Kishor filled up the required information in pay-in-slip without any mistake/error. Geeta then submitted the same pay-in-slip along with the loan installment amount to bank. From the same month onwards, she had given the task of filling up the pay-in-slip to Kishor. Kishoralways used to copy the data from the last month bank stamped pay-in-slip to fill up the next month pay-in-slip for the payment of installment. She always found that Kishor had never made a mistake while filling up the bank details and other required data in the pay-in-slip.

Harsha told Ms. Geeta that it was a good practice to involve your son in banking transactions and that it may teach him something in financial management. Harsha also asked her whether she had a record of any financial transaction done with a bank branch in her saving bank pass-book. Geetareplied in the negative and added that she did not know how to do this.

It was difficult to understand for Harsha, to see and understand where things could have gone wrong. As per the record of stamped pay-in-slips of the last 6 months, all the details were filled up perfectly. She had an apprehension that probably the loan account number may have been different. First, she asked Geeta to approach the bank and ask the bank officer to update saving bank account passbook immediately and also asked her to bring all the loan documents while coming to the next class of financial education workshop series.

Geeta updated her saving bank account pass book on the same day. While coming to the next class of financial education workshop, she brought all the documents viz. 1. Updated bank statement; 2. Record of all the pay-in-slips those she had filled properly and 3. Loan account documents.

Harshawentthoughall documents. She found that eventhough the saving bank account number printed on saving bank account passbook and written by Kishor were the same; unfortunately, instead of the installment money being deposited in the loan account, the same was deposited wrongly in savings bank account. This was because instead of writing the loan account number on the pay in slip, the savings bank account number was mentioned.

Harsha showed this difference of bank account number to Geeta. Geeta told Harsha that "the bank customer who was standing in the queue had told her that whenever in future, if she wanted to deposit the money in a bank, she should refer a bank account printed on the pass-book issued to an account holder". And she did accordingly.

Harsha, continued the session of financial education workshop, explained her along with other participants the difference between saving bank account and a loan account as well as the other parameters of both.

Geeta told Harsha, "Since, the first day of my business, I saved regularly after deducting all my business expenditures, and paid all monthly installments on time. I wanted to repay whole loan as soon as possible, though I have to pay Rs. 1500 as a penalty charges, only because of instead of writing a loan account number, I have written saving bank account number in pay-in-slip used to deposit the money. But the reality is all my money is deposited with the same bank branch".

She also added that the bank officer had never explained the difference between both of these accounts, as you (trainer) have explained. It should be his duty. Due to his mistake, I have been asked to pay penalty charges mentioned in the notice, by adding "This amount is a really a BIG one, for us who are financially illiterate and live Below Poverty Line". She had also told that before being included in theformal financial system, she wants to be financially literate first".

Financial Inclusion

Government has initiated the concept of "Financial inclusion" with an objective of providing formal banking services to poor people in urban & rural areas, promoting habit of money-savings, insurance, pension-investment among poor-people, and helping them get loans at reasonable rates from normal banks. The objective was that they should not become victims in the hands of local moneylender cum thugs. Financial inclusion has emerged as a key to the economic empowerment of the poor, especially women. Facilitating access to microfinance through SHG-supported bank linkages is one of the most critical aspects of our Financial Inclusion program.

The various schemes of financial inclusion enablepoor to build capital through their own savings within the SHGs and access credit, pledging their collateral withthe bank. This process provides a safety net for the poor and an alternative to exploitative money-lending practices operating in rural areas.

The role of Banks

The banks play a crucial role providing the banking services to these un-served/ under served. Under financial inclusion, instead of giving a credit to particular one or two woman/women, the credit is given to SHG (Self Help Group). SHG is a group of 10 to 20 women.

1. **Opening of Savings accounts:** The role of banks would commence with opening of accounts for all the Women SHGs, SHGs with members of Disability and the Federations of the SHGs. The 'Know Your Customer' (KYC) norms as specified from time to time by Reserve Bank of India are applicable for identification of the customers.

The role of banks would commence with opening of accounts for all the Women SHGs. The Bank provides loans to SHGs for meeting entire credit requirements of the groups like income generation activities, social needs like housing, education, marriage and debt swapping.

2. **Lending Norms:** The Bank provides both Term Loans and Cash Credit limits to SHGs.

2.1 The eligibility criteria for the SHGs to avail loans

- SHG should be in active existence at least since the last 6 months as per the books of account of SHGs and not from the date of opening of S/B account.
- SHG should be practicing 'Panchasutras' i.e. Regular meetings; Regular savings; Regular inter-loaning; Timely repayment; and Up-to-date books of accounts;
- Qualified as per grading norms fixed by NABARD. As and when the Federations of the SHGs come to existence, the grading exercise can be done by the Federations to support the Banks.
- The existing defunct SHGs are also eligible for credit if they are revived and continue to be active for a minimum period of 3 months.

2.2. Loan amount: Emphasis is laid on the multiple doses of financial assistance, this would mean assisting an SHG over a period of time, through repeat doses of credit, to enable them to access higher amounts of credit for taking up sustainable livelihoods and improve on the quality of life. The amount of various doses of credit should be as follows:

- First dose: 4-8 times to the proposed corpus during the year or Rs. 50,000 whichever is higher.
- Second dose: 5-10 times of existing corpus and proposed saving during the next twelve months or Rs. 1,00,000 whichever is higher.
- Third dose: Minimum of Rs. 2,00,000, based on the Micro credit plan prepared by the SHGs and appraised by the Federations/Support agency and the previous credit history
- Fourth dose onwards: Loan amount can be between Rs. 5-10 lakhs for fourth dose and/or higher in subsequent doses. The loan amount will be based on the Micro Credit Plans of the SHGs and their members.

The loans may be used for meeting social needs, high cost debt swapping and taking up sustainable livelihoods by the individual members within the SHGs or to finance any viable common activity started by the SHGs.

2.3 Type of facility and repayment:

SHGs can avail either Term loan or a CCL loan or both based on the need. In case of need, additional loan can be sanctioned even though the previous loan is outstanding.

- Repayment schedule could be as follows:
- The first dose of loan will be repaid in 6-12 installments

- Second dose of loan will be repaid in 12-24 months.
- Third dose will be sanctioned based on the micro credit plans, the repayment has to be either monthly/quarterly /half yearly based on the cash flow and it has to be between 2 to 5 Years.
- Fourth dose onwards: repayment has to be either monthly/quarterly /half yearly based on the cash flow and it has to be between 3 to 6 Years.

2.4 Margin requirement: The quantum of the loan depends on the saving corpus of the group. The first loan to group should not exceed four times the corpus. In case of repeat loans, higher need based loan can be sanctioned.However, maximum loan per SHG member should not exceed Rs.50,000/-. There is no margin requirement. The group corpus is treated as margin. Group corpus is an amount that is available in the saving bank account of a SHG.

Guidelines

Under the financial inclusion, the eligibility criteria for the SHGs to avail loans are:

1. SHG should be in active existence at least since the last 6 months as per the books of account of SHGs and not from the date of opening of S/B account. SHG should be practicing ‘Panchasutras’ i.e. regular meetings; regular savings; regular inter-loaning; timely repayment; and up-to-date books of accounts.
2. The first dose of loan will be repaid in 6-12 installments. Banks are also supposed to observe Post credit follow-up, which includes:
   A. Loan pass booksto be provided in regional languages may be issued to the SHGs which may contain all the details of the loans disbursed to them and the terms and conditions applicable to the loan sanctioned. The passbook should be updated with every transaction made by the SHGs.
   B. At the time of documentation and disbursement of loan, it is advisable to clearly explain the terms and conditions as part of financial literacy, and
   C. Bank branches may observe one fixed day in a fortnightly to enable the staff to go to the field and attend the meetings of the SHGs and Federations to observe the operations of the SHGs and keep a track of the regularity in the SHGs meetings and performance.

Questions:

1. Comment on whether a bank officer has done his duty correctly or there was a mis-communication from Ms. Geeta?
2. Make a list of where the bank officer has committed the mistakes?
3. What made Geeta seek help from an unknown person in the bank?
4. Considering yourself as a manager of the said bank branch, would you find yourself responsible and accountable for this whole issue? How would you like to resolvethe said issue?
5. Comment whether Bank has understood and followed the right approach of financial inclusion?
6. If you are Geeta what are the reasons why are you under such a mess?

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