

## Bank at your doorstep

**Technology is helping public sector banks find customers in rural India. This is part of the Centre's efforts to include villages in the organized financial system; to ensure they are not cheated of their wages. Pilots show promise**

The current state of rural banking in the country is poor.

A recent report, by the National Sample Survey Organization, revealed that 51.4 per cent of the 89.3 million total farmer households in the country had no access to credit; 27 per cent of the households were indebted to formal sources of which one-third also borrowed from informal sources. With the financial inclusion drive, the Centre aims to overcome such exclusion.

MNREGA was a ready tool for the inclusion drive (see: MNREGA *fact file*). But with reports of corruption, MNREGA was in a mess. In 2007, the Comptroller and Auditor General of India (CAG) conducted a performance audit of the national rural employment guarantee scheme. The audit report exposed lapses in the scheme's implementation and delay in wage payments. Of the 21.2 million households that demanded work under NREGA, 2.2 million received the 100 days of guaranteed employment, CAG found. "Systems for financial management and tracking were deficient, with numerous instances of diversion/misutilization, and delay in transfer of state share," the report noted.

Other irregularities were also reported. Villagers in six districts of Uttar Pradesh protested in June last year because they did not get their wages (see 'Rs 1 crore due to NREGS workers in UP', *Down To Earth*, July 15, 2009). Machines and not labour were used in Bhilwara in Rajasthan. In Orissa, government officials siphoned about 75 per cent of the MNREGA funds in mid-2007 (see 'Report card of NREGA in Orissa', *Down To Earth*, September 30, 2007).



Corruption reported in implementing MNREGA forced rural development ministry to make cash payments illegal

In the light of such reports and its own findings, CAG recommended the government should explore a deal with the postal department for wage payments through postal accounts, except where state governments had ensured payments through banks. "The ministry of rural development's assessments and the widespread corruption reported forced us to amend MNREGA in 2008," said Nitin Chandra, director of MNREGA cell. Cash payments became illegal under the amendment. Until then more than half the wages were paid in cash. Post amendment, till December 2009, 22 per cent of the total wages were paid in cash, ministry

data revealed.


In keeping with the Centre's directive, states such as Punjab, Andhra Pradesh and Bihar have opened accounts in banks or post offices for all its beneficiaries; Meghalaya, Mizoram and

Arunachal Pradesh lag behind with accounts opened for 33 per cent, 28 per cent and 21 per cent of its beneficiaries, ministry data showed. The data also revealed that 22 per cent of the wages in the country were paid in cash. Despite the amendment, said Chandra, exemptions are made for blocks because in some cases the nearest branch is more than 40 km away, he added.

But, rural banking is beyond savings accounts in banks or post offices. A 2009 study, *Speeding Financial Inclusion*, by Skoch Development Foundation, a not-for-profit company in Gurgaon, revealed that though more than 25 million accounts were opened between April 2007 and May 2009, less than 11 per cent of them were active.

Why? Lack of appropriate technology, said K C Chakrabarty, deputy governor of Reserve Bank of India (RBI). Without technology banks cannot reach the people and since existing banking technologies are recent, a business delivery model is yet to evolve, he said.

Experiments are on though.



Shankar Sahu, 37, a labourer in Makarjhol village of Ganjam district in Orissa, would walk five km to Saru village to collect his NREGA wages. When he felt tired, he took an auto ride: and spent Rs 10.

Saru has a State Bank of India branch, in which the government deposited his wages under NREGA renamed Mahatma Gandhi National Rural Employment Guarantee Act MNREGA on October 2, 2009. Collection day for Sahu meant a day wasted, long queue at the bank plus expenditure on transport. But, that was over a month ago.

Now, the bank reaches Sahu in his village via its new branchless banking pilot scheme in the district. The scheme involves a trained bank representative, state-of-the-art mobile phone, a smart card and a fingerprint device—all of these connected to the central server of the bank in Mumbai. The representative, the face of the bank in the district, carries the paraphernalia and makes weekly payments to daily wagers.

Sahu is thrilled. So are thousands of villagers covered under the government's recent financial inclusion drive. The aim of the drive is to include the weaker and vulnerable sections of society in the ambit of organized financial system. And, with the Centre directing states to pay MNREGA wages through post offices and banks, the institutions are busy experimenting payment options with several IT-enabled services.

The inclusion drive, though, is only teething now.

Banks expand arms, but not through branches

Smart cards, biometric ATMs, mobile phones the new tools



MEETA AHLAWAT

Smart card device has helped save banking time and expanded Oriental Bank of Commerce's customer base in Rajasthan

Technology plays a crucial role in making banking services available to the rural poor. And banks are exploring options. To begin with, the Reserve Bank of India (RBI) has permitted banks to use intermediaries such as cooperatives or microfinance institutions to provide services in places banks cannot reach. These intermediaries, called business correspondents, could also be retired bank or government employees, or not-for-profit companies registered under the Companies Act. The rule is: hire and train correspondents in basic financial services and provide them with the

required technology to complete transactions.

### Smart cards in Rajasthan

Makkhan Lal, 29, cheerfully walks about Fatuhi and Khatlabana villages in Sriganganagar district with a smart card reading device.

An undergraduate looking for work earlier, there is a new confidence in his gait—Lal is the district's first business correspondent. He transacts with 1,400 daily wagers whom the bank has issued biometric smart cards, and earns about Rs 3,000 per month. The smart cards, which resemble debit cards, contain information such as name, age, address, account details and fingerprint impressions of the beneficiary. There is also his or her digital photograph embossed on the card.

When Lal reaches a village he first activates the machine so that the smart card can be inserted. The device, imported from the US, requires a fingerprint to verify the beneficiary. "Since labour often alters fingerprint impressions, an option for all 10 fingerprints exists. Some of us also carry Vaseline for extreme cases," Lal said. After verification, Lal hands over the cash. The machine prints two receipts; Lal keeps one, gives the other to the beneficiary. The information is relayed to the bank through the smart card reading device.

Transactions can range up to Rs 20,000 and as a rule smart card holders cannot conduct direct transactions with the bank, the Oriental Bank of Commerce in this case. In keeping with RBI guidelines, the bank has hired Financial Information Network and Operations (FINO), a not-for-profit company in Mumbai, to issue smart cards and hire business correspondents.

The incentive for business correspondents of course lies in the one time fee of Rs 4.50 for

every smart card issued, which the bank bears. The bank also pays the correspondent a monthly stipend of Rs 1,000, plus half a rupee for every transaction. Since Lal's recruitment in August 2009, FINO has hired 25 business correspondents who are serving 20,000 beneficiaries.

While the smart card device is available on a rent of Rs 9,000 each year, each smart card costs Rs 112. The bank bears these costs. RBI reimburses Rs 50 per smart card to the bank. Under the pilot, which started in August 2009, the bank has issued smart cards to MNREGA beneficiaries in 13 of the 20 branches they have in the district.

The advantages are obvious. The bank's reach has expanded because of the business correspondents, and time is saved in carrying out the transactions.

### **BioMetric ATMs in Tamil Nadu**

For the women of Periyakanganankup-pam, a village in Cuddalore district, all roads lead to the ATM. Fifteen months after the district started paying MNREGA wages through debit card linked zero balance accounts; the women have mastered the art of withdrawing their wages from the ATMs. These are different from the cash dispensers found in cities—in biometric ATMs the second level of authentication is one's fingerprint, not personal identification number.

### **Banks expand arms, but not through branches**



Biometric ATM experts in Cuddalore  
Photograph: NIRANJANA RAMESH

The authentication leaves no scope for fraud because no one except the beneficiary can withdraw money. "My wife gets to decide when to withdraw and how to spend her earnings. She has saved over Rs 2,000," said Mahalingam. "Earlier, she would bring home all her MNREGA earnings to me," he added.

The ATM operates in Tamil, but for the elderly and the unlettered, help is at hand. Sudha, a resident with a school-leaving certificate to her credit, manages the ATM and helps people withdraw their earnings. The panchayat has also employed a resident who collects weekly workers' list and their

due wages from the worksite, and deposits cash with the bank. The bank, SBI, sends its staff to the village to put in cash in the machines.

Periyakanganankuppam was one of the five village panchayats in Cuddalore district chosen for the biometric ATM pilot. The pilot was launched in November 2008, but one village was excluded because it did not have wireless access. Two others dropped out because the bank failed to process applications for saving accounts in time for the pilot. "We did not have enough staff," said K Venugopal, branch manager of Cuddalore SBI.

During the pilot the Cuddalore block administration paid Rs 12.25 lakh through 675 bank accounts in these two panchayats. Rs 6.05 lakh was paid as cash to non-account holders. The Rural Tele-Banking Initiative under IIT Madras provided the technology. And, Periyakanganankuppam, with 445 account holders, and Pathirikuppam, with 230 account holders, successfully completed the pilot in May last year. The plan is to upscale the project to all 145 villages in the Cuddalore block.

With a successful pilot in Tamil Nadu, the SBI is experimenting with a different technology in Orissa.

### **Mobile phones in Orissa**

It's a state-of-the-art mobile phone. It is blue tooth customized and GPRS enabled, which means one can use the Internet on the mobile phone. A fingerprint scanner-cum-printer is connected to the phone. It is used to enrol beneficiaries, as well as to make payments.

Zero Mass Foundation, a not-for-profit company in Mumbai, is the business correspondent for Orissa's pilot project which started in November 2009. The foundation hires representatives in villages, whom they call customer service providers.

Each beneficiary also has an identity card called the SBI tiny card. This carries details of the beneficiary, along with the zero security number, a unique ID, which acts as the first level of identity proof (see box: *It's wage day*). To ensure no malpractice, the device is voice enabled. It records the beneficiaries' voices in it. But this is only during enrolment. Voice verification during transaction is not done but if there is a need, the option exists.

Usually, the junior engineer at the work site concerned sends weekly bills to the panchayats, along with the work schedule. The schedule lists the quantum of work and the due wages. The sarpanch and the customer service provider issue a cheque to the nearest SBI branch, along with a copy of the work schedule and the wages due. The branch credits the amount mentioned into the beneficiary's account, which automatically gets transferred to the Zero Mass Foundation's account. The foundation then transfers the money to the

customer service provider who withdraws it and makes the payment.

Cost though is a deterrent and the reason the pilot project was restricted to 986 panchayats in Ganjam, Gajapati and Mayurbhanj districts, and one panchayat each in Bhadrak and Jajpur districts. The pilot was planned in 1,000 gram panchayats in 10 districts.

SBI pays Rs 2,000 per customer service provider to the foundation. About 700 of them are active. The foundation keeps Rs 500 towards its cost and gives the rest to the service provider. Then there is the customized device, which costs Rs 25,000. The service provider makes a down payment of Rs 5,000 for the device to the foundation; the rest is deducted in 36 easy instalments from the service provider's salary.

Bank officials conceded that because of these problems, except in Ganjam, things had not moved beyond the enrolment stage.

### Search on for a new model



SAROJ MISHRA

While pilot projects have been more or less successful in states, the problem arises when scaling up or implementing projects across states is talked about. It is not clear who will pay, the Centre, the state or the banks.

The RBI's move of no-frill savings accounts (that require a minimum or no balance) has failed to make the desired impact because the accounts, on an average, have only Rs 30 to Rs 50 as balance," said Umesh Kumar Singh, deputy general manager of Central Bank of India in Mumbai. "This is not viable for any bank," he added.

RBI has also allowed banks to charge a maximum transaction cost of 2 per cent for MNREGA accounts from the state government, but states like Rajasthan and Orissa do not want to share the burden.

Only Andhra Pradesh is paying this fee.

"Banks are trying different financial inclusion models. But, nothing will work unless it is viable for all stakeholders, including the business correspondents," said Singh (see box: *Fault lines*). "The money also needs to be routed in the right direction," he added. A financial inclusion model, such as the SBI initiative in Cuddalore, needs to be economically viable and self-sustaining for upscale, said Rajendra Ratnoo, former collector of Cuddalore district who launched the SBI pilot. "The ATM centres could be converted to kiosks where the government

can run its common service centres, and allow entrepreneurs in the village to set up stores, and sell SIM cards and recharge coupons," he added.

Going back to the Orissa example, the SBI pays Rs 2,000 per customer service provider to its business correspondent. The customized mobile phone costs Rs 25,000, which the customer service providers bear. The question is would this be viable in the long run. Then there is staff crunch to deal with.

**"Unsustainable model"**

A State Bank of India official, on the condition of anonymity, spoke about the problems with their inclusion model

**On sbi's financial inclusion model**  
Beneficiaries are given biometric smart cards. If fingerprints match data, a transaction is made. Money is distributed manually.

**On scaling up operations**  
People in villages have expectations from the business correspondents. A correspondent is not a bank employee; the technology provider hires him. Villagers demand passbooks and other such things, which adds to the cost. Scaling up therefore is not viable.

**On financial viability**  
The model is not sustainable. It requires capital cost and salary for the business correspondents. There are no profits because the balance in the no-frills account is too low.

The bank though is hopeful that their inclusion plan would work in the long run. "We are not making any profit now. The returns will start flowing in three to five years when we start handling non-government transactions such as recurring and fixed deposits," said an SBI official who did not want to be named. "We are also encouraging other well-to-do people in the villages to open savings accounts," he added.

Sudhakar Panda, economist and member of Orissa State Farmers' Commission, agreed that things were tough for the bank because of the financial model. "It might work out once the bank is able to develop saving habit among people," he added. Experts say these are only teething

problems.

To take care of the technology cost, the Centre has constituted the Financial Inclusion Fund and Financial Inclusion Technology Fund. Each of these funds, with an initial corpus of Rs 500 crore, is under the National Bank for Agriculture and Rural Development (NABARD).


According to Singh the challenge is to route the money in the right direction. After two years of research into the existing financial inclusion models, the Central Bank of India proposed a new model (see: *Interview*). He also sees endless possibilities in mobile phones. Banking through mobile phones can offer a low cost channel, as the penetration of mobile phones is high, he said. "Against 450 million mobile phone connections in India, there are only 120 million bank accounts. It costs anywhere between Rs 90 and Rs 120 to issue one smart card; but mobile phone is an existing connection," he added.

Financial experts are also calling for the launch of a 'national rural financial inclusion plan' under a mission mode. The plan should target to provide access to financial services, including credit, to at least 50 per cent of the financially excluded rural households by 2012. The remaining should be covered by 2015.

Banks might also be mandated to bear the cost of universal financial access as part of their business obligation. Alternatively, they could contribute a

percentage of their turnover to a 'Universal Financial Access Fund' under the mission, the Skoch report recommended.

**“Most banks today are into CSR”**



*Umesh Kumar Singh, in-charge of Central Bank of India's financial inclusion drive, spoke on the bank's collaboration with Rajasthan government*

**On the tie-up**  
The rural development ministry has approved our model of financial inclusion and directed the state to sign an MoU with us. It should be signed by the month-end.

**On the model**  
Most banks today are into corporate social responsibility, which is not financially viable in the long run. We have developed a model that is viable for the bank, the business correspondents and the government. We plan to handle the state's entire MNREGA fund. The bank would invest a chunk of this money in the open market to earn profit and disburse the rest as wages. We will involve other banks as our business correspondents, and pay them Rs 7 per account per month.

**Why Rajasthan?**  
The reason perhaps is Rajasthan tops the list of high mnrega expenditure and has over nine million beneficiary accounts. These accounts would be linked to our bank.

**On the response**  
Other banks were not happy initially. But we have discussed all aspects of our model with them and now they are keen. Our model should roll out soon.

----- BOX:Aurangabad works through post offices -----

Gayabai Bhimrao Magar, 50, does not need to migrate for work since MNREGA was launched in Aadgaon Budruk village in Aurangabad district. She earns a little more than Rs 50 each day, but she has no complaints.

“At least, I don’t need to migrate anymore, or leave my children behind,” she said. “Now, I have a savings account in the post office at Nidhona, which is near our village. Whatever little I save, I invest it in my daughter’s education. She is in class 12,” the proud mother said.

In 2008-09, the district disbursed Rs 10 crore to more than 70,000 labourers under MNREGA through post offices and banks. Almost 85 per cent of the accounts opened in the district are with post offices. The zero balance accounts are free for villagers and the district bears the cost of their photographs. Panchayats send details of the work sheet and payments due to the collector’s office, which issues a cheque to the post office, said S R Malpani, junior engineer of MNREGA works at Aurangabad.

----- BOX:Fault lines -----

The business correspondent model seems viable in the long term but not in the short and medium term. The reason for this, said the Skoch report, is instead of getting financial support, they are expected to invest in the basic infrastructure for financial inclusion.

“Like other businesses, the business correspondent also requires initial financing support from a bank or some other entity,” the report added.

K C Chakrabarty, deputy governor of rbi, added that a strong collaboration among banks, technical service providers and the correspondent’s service providers, imperative for the model to succeed, was lacking.

Business correspondents, Lal in Sriganganagar for instance, have large areas to cover and a number of customers to serve. Sometimes there are complaints that the correspondents run out of disbursement money. FINO, the agency that hires correspondents in Rajasthan, said such complaints would be addressed once their daily disbursement limit was increased from Rs 10 lakh to Rs 20 lakh.

An August 2009 report of a rbi working group to review the business correspondent model said the model would be successful if sufficient business is generated. “Existing experiments with the model deal with liability side business. Banks are using them to interface with people. If they are used merely for this purpose, the income generated by them will not be sustainable...The range of services to be delivered through a correspondent should include suitable small savings, micro credit, micro insurance, small value remittances,” the working group recommended.