## FINANCIAL INCLUSION & FINANCIAL LITERACY 6

#### **CH- 16 MODULE A PPB By Ashish Sir**

PMSBY

#### What is Financial Inclusion?

Financial inclusion **ensures affordable financial services** to the **disadvantaged and low-income groups**, preventing financial

exclusion X. It includes:

- **☑** Bank Accounts
- ✓ Payments & Remittances
- ✓ Loans & Credit ==
- **☑** Savings & Investments **∠**
- **☑** Insurance & Pension **델 ②**

#### III Key Aspects of Financial Inclusion

<b>Aspect</b>	Q Details	Real-World Example
Banking Access	Opening zero-balance	PM Jan Dhan Yojana – Over 50
ATM	accounts	crore bank accounts opened î
Microfinance	Small loans for businesses	SHG-led women's group receiving
\$	& women empowerment	₹10,000 micro-loan for setting up
		a tailoring shop 👗

# <u>USSD</u> Gode micro ATM

Digital	UPI, Mobile wallets,	Google Pay, Paytm, PhonePe –
Payments *	Internet Banking	transforming rural transactions
		<del>R</del>
Micro	Affordable health & life	PM Jeevan Jyoti Bima Yojana –
Insurance 🖆	insurance	₹336/year for ₹2 lakh coverage
<b>Micro Pensions</b>	Small savings for future	Atal Pension Yojana –
•••	security	₹210/month ensures ₹5,000
		pension at 60 yrs
Financial	Educating rural & urban	RBI's Financial Literacy Centers
Literacy 管	poor about banking	(FLCs)

## **Why is Financial Inclusion Important?**

Empowers the Poor — Helps low-income groups participate in the economy.

Reduces Dependence on Moneylenders in – No more high-interest local borrowing.

◆ Boosts Savings & Investment 

✓ – Encourages economic security.

Encourages Digital Economy ■ – Less cash dependency, more UPI
 & digital transactions.

► Improves Women's Financial Independence 🧎 – Women-led SHGs play a crucial role.

**◆ Enhances Economic Growth** ■ − More people in **formal banking** = **Higher GDP**.

#### **How Banks & Financial Institutions Benefit?**

Increase in Customer Base — More account holders = More transactions.

New Business Opportunities — Insurance, credit, digital payments expand banking services.

Government Support & Subsidies — Banks working on financial inclusion get incentives.

Lower Risk of Bad Loans — Formal banking reduces fraud & high-risk lending.

	Global Initiatives	Indian Initiatives
G	Grameen Bank (Bangladesh) –	Pradhan Mantri Jan Dhan Yojana
M	Microfinance pioneer by Muhammad	(PMJDY) – World's largest financial
Y	'unus 🖓	inclusion program 🏥
G	620 Financial Inclusion Plans	UPI & Aadhaar Banking – Digital
		financial revolution
N	Mobile Money (M-Pesa, Kenya)	RBI's Basic Savings Bank Deposit
		Accounts (BSBDA)

## 📌 Challenges in Financial Inclusion 😉

- Low Financial Literacy People don't understand banking.
- Lack of Digital Access Rural areas still have low internet & mobile penetration.
- Trust Issues 😉 Fear of banks & fraud.
- Coperational Costs for Banks in High cost of opening rural branches.
- Cybersecurity Risks Digital frauds can impact financial stability.
  - Solutions: More awareness campaigns, better infrastructure, and simplified banking rules!



✓ Use of <u>Business Facilitators (BF)</u> & Business <u>Correspondents (BC)</u>

- Many rural and low-income individuals lack direct access to banking services.
- RBI allows banks to use NGOs, SHGs, and MFIs as intermediaries under BF & BC Models to bridge the gap!

	<b>Model</b>	<b>○</b> Who Can Be Engaged?	© Functions & Activities
	BF (Business	NGOs, SHGs, Farmer Clubs,	Identifying borrowers,
#1	Facilitator) 🤝	Post Offices, Insurance Agents,	financial literacy,
	1	Panchayats, Agri Clinics, IT-	processing loan
		enabled outlets	applications, post-loan
			monitoring SHG
	apsico		formation 🙎
11-0	BC (Business	Retired bank employees,	Account opening, credit
#1	Correspondent)	teachers, government	disbursement, micro-
		employees, ex-servicemen, fair	insurance, deposits
		price shop owners, MFIs,	collection, loan recovery,
		cooperative societies, post	remittances 🐧 📲
		offices, companies (except	
		NBFCs)	
	Key Difference	. 4 1 1 1	

BFs only facilitate, whereas BCs handle actual transactions like deposits, loans, and withdrawals!

## **Terms & Conditions for Engaging BF/BC**

Commission & Fee: Banks pay a fee to BF/BC, but they cannot charge customers directly X &

**▼ Technology Adoption**: Transactions must be ICT-enabled (mobile

devices, biometrics, digital platforms)

#### **Risk Mitigation**:

- Cash handling limits & receipt issuance for all transactions
- Security & confidentiality of customer data
- Clear agreements stating banks are responsible for customer interactions

## Ultra Small Branches (USBs)

RBI permits low-cost Ultra Small Branches in rural areas to supervise BC activities.

	- Feature	<b>Details</b>
-	Structure	Simple brick-and-mortar building 🔎
سا	Purpose	Serves 8-10 BC units within 3-4 km radius
	Facilities	CBS terminal, passbook printer, cash safe, full-time bank officer
	Classification	Recognized as an independent or part-time <b>banking outlet</b>

Example: A village USB provides <u>passbook updates</u>, <u>ATM cards</u>, <u>small cash deposits</u>, and <u>withdrawals</u>, reducing travel distance to banks

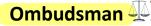


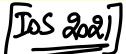




Banks must have a dedicated system for addressing complaints regarding BC/BF services.

- Contact details of **Grievance Officers** should be widely publicized.
- If unresolved within 60 days, customers can approach Banking





**Example:** If a villager complains about mismanagement by a BC agent, they can contact their bank. If unresolved in 2 months, they escalate it to the Banking Ombudsman for justice.

#### Information & Comm. Tech Role of ICT in Financial Inclusion

- Technology enables banking even in rural areas **W**
- Biometric authentication ensures security
- Mobile banking and digital wallets reduce the need for physical branches ===
- Digital literacy helps illiterate users access banking safely
- **Example:** Rural farmers use **Aadhaar-linked biometric authentication** for secure banking transactions via BC agents.





- Lack of awareness is a major barrier to financial inclusion!
- Banks must educate customers in their local language about:
  - Benefits of banking & digital payments 🏥 🗏
  - Savings & insurance awareness 🕉 ╿
  - Avoiding fraud & financial scams 40
- **Example:** SBI organizes **financial literacy camps in villages** to educate farmers on how to use digital payments and avoid loan frauds.
- Financial Inclusion Through Banking & Digital Innovations
- Setting Up of Payment Banks (PBs)
- **✓ Objective:** Increase **financial inclusion** by offering:
- 1 Small Savings Accounts 🏥 🖔
- 2 Payments & Remittance Services
- **♦ Who Benefits?**
- 🙎 Migrant Workers | 🔛 Low-income Households | 🚔 Small Businesses
- | 🏍 Unorganised Sector Workers

## Scope of Activities of Payment Banks

© Service	<b>Details</b>
Deposit Accounts ==	Maximum ₹2 lakh per customer
Cards & Payments	ATM/Debit Cards, Internet Banking
Remittances 🤏	Domestic money transfers
BC for Other Banks 🤝	Act as intermediaries for major banks
Financial Products	Simple insurance, mutual funds
Utility Bill Payments 🖭	Electricity, water, mobile recharge



- **◆ Physical Presence Requirement:** 
  - 25% of branches must be in rural areas 📬
  - Mostly operate through BCs, ATMs, digital platforms

**Example:** Airtel Payments Bank & Paytm Payments Bank allow **instant** online bank accounts, cashless transactions, and UPI payments.

- **SHG-Bank Linkage Programme**
- SHGs (Self Help Groups) bridge the gap between:
- 🛍 Banks + 🥵 Rural Poor = Financial Inclusion 📈
- ◆ **RBI Guidelines:** All banks must provide **complete credit access** to SHGs.

**Example:** NABARD's SHG-Bank Linkage Programme helped over **100** million women get microloans for starting small businesses.

# Co-Lending by Banks & NBFC to Priority Sectors

RBI's 2020 Guidelines introduced the Co-Lending Model (CLM) to improve credit flow to:

Agriculture | 🗀 MSMEs | 🛍 Affordable Housing | 💊 Healthcare

Why Co-Lending Works?



**Example:** SBI partners with Bajaj Finserv to provide quick business loans to MSMEs.

- **■** Use of Mobiles/Tablets in Financial Inclusion Drive
- Introduction to Mobile Banking
- Mobile banking = Banking via phone apps, SMS, USSD
- **Rey Factors for Growth:**

- **✓** Low-cost smartphones
- **▼** Faster internet (4G/5G) ■
- COVID-19 impact: Shift to digital payments 🐙 💳

Example: During COVID-19, PM Jan Dhan Yojana (PMJDY) accounts were credited with <u>DBT payments</u>, allowing rural households to access <u>cashless banking</u>.

### Mobile Banking & Financial Inclusion

- Empowers the poor by providing:
- ✓ Credit & Savings
- **☑** Insurance & Pension **ા**
- 🔽 Payments & Remittances =
- How Mobile Banking Helps the Poor?

<b>Service</b>	© Impact
Instant Money Transfer 📤	No need to visit a bank
Digital KYC & Account Opening	No paperwork required
<b>Agent-Based Transactions ♡</b>	Helps illiterate users transact easily
Wage Transfers via Mobile 🖔	No wage loss for migrant workers
Microloans via Apps III	Faster access to credit

**Example:** UPI-based apps like **PhonePe, Paytm, and Google Pay** allow small businesses and individuals to **accept payments without a physical POS machine**.

# Challenges in Mobile Banking Adoption

- #1 Security Risks Fear of fraud/hacking
- Device & OS Compatibility Issues X Different mobile platforms
- Low Digital Literacy ≤ First-time banking users struggle with mobile apps
  - **Solutions:**
  - 1 Simplified banking apps
  - 2 Security enhancements
  - 3 Mass awareness campaigns
    - Example: PM Digital Saksharta Abhiyan trains rural users in digital payments and mobile banking.
    - **✗ USSD-Based Mobile Banking**
    - **Solution Solution Solution**
    - Launched by NPCI in 2012 with \*99#

# ◆ USSD 2.0 with **UPI (2016)** enabled **mobile banking on feature**

phones

**Example:** A farmer with a **basic Nokia phone** can check account balance & transfer funds using \*99#.

# Ch-16 Module A PPB #2

- **M** Digital Onboarding
- **☑** Banks use FinTech to onboard new customers via:
  - Aadhaar-based eKYC

  - Direct Benefit Transfer (DBT)

**Example: Aadhaar-Pay** allows instant eKYC verification for new bank account openings.

### **Digital Lending**

- RBI's Digital Lending Guidelines (2021) focus on:
- 1 Regulating online lending platforms
- 2 Weeding out unauthorized lenders
- **3 Protecting borrowers from frauds**