

Chapter V

Financial Inclusion: Policy and Progress

5.1 Providing universal access to banking services and improving the forms of credit delivery, especially for the weaker sections of the population, form the basis of the Reserve Bank's financial inclusion agenda. With a view to achieving sustainable and scalable financial inclusion, multiple strategies are being used such as appropriate relaxations in guidelines, provision of new products and other supporting measures.

I. Financial inclusion: policy approach and interventions

The Reserve Bank has since the last decade made the following policy interventions in the area of financial inclusion.

Allowing correspondent banking

5.2 The Reserve Bank permitted banks to utilise the services of intermediaries in providing banking services through the use of business facilitators and Business Correspondents (BCs). The BC model allows banks to do 'cash in-cash out' transactions at a location much closer to the rural population, thus addressing the problems of last mile reach.

Providing banking services in villages with population more than 2,000

5.3 In order to provide door step banking facilities in all the unbanked villages in the country, a phase wise approach has been adopted. During Phase-I (2010-13), all unbanked villages with population more than 2,000 were identified and allotted to various banks (public sector banks, private sector banks and regional rural banks) through State Level Bankers' Committees (SLBCs) for coverage through various modes – Branch or BC or other modes such as ATMs, mobile vans, *etc.* During Phase-I, as reported by SLBCs, banking outlets have been opened in

74,414 unbanked villages with population more than 2,000. Such newly opened banking outlets comprised of 69,589 outlets opened through BCs and 2,332 by other modes, apart from 2,493 branches.

Opening banking outlets in unbanked villages with population less than 2,000

5.4 After the completion of the first phase of the roadmap, the second phase (2013-16) to provide banking services in unbanked villages with populations less than 2000 was rolled out. About 4,90,298 unbanked villages with population less than 2000 have been identified and allotted to various banks (public sector banks, private sector banks and regional rural banks) through SLBCs across the country for coverage in a time bound manner. As on June 30, 2016, as reported by SLBCs, 4,52,151 villages have been provided banking services; 14,976 through branches, 4,16,636 through BCs and 20,539 by other modes *viz.* ATMs, mobile vans, *etc.* thereby achieving 92.2% of the target.

Financial inclusion plans

5.5 All domestic Scheduled Commercial Banks (SCBs) – both in the public sector and private sector – were advised to draw up board-approved Financial Inclusion Plans (FIPs) as an integral part of their business strategy based on their competitive advantage. FIPs are submitted to the Reserve Bank and are implemented over blocks of three years. These plans broadly include self-set targets with respect to: opening rural brick and mortar branches; Business Correspondents (BCs) employed; coverage of unbanked villages through branches/ BCs/ other modes, opening of Basic Savings bank deposit accounts (BSBDAs) including through BC-ICT; issuance of Kisan Credit Cards (KCC) and General Credit Cards (GCC) and other specific products aimed at the financially excluded segments.

5.6 In April 2011, domestic SCBs were mandated¹ to open at least 25 per cent of the total branches opened during a year, in unbanked rural (Tier-5 and Tier-6) centres. Subsequently, in 2013, banks were advised to front-load the opening of branches in unbanked rural centres over a 3-year cycle co-terminus with their FIPs for the period 2013-16. With a view to accelerating the progress in opening of bank branches in rural areas, 'credit' was given for opening more (in excess of 25 per cent in a year) branches in unbanked rural centres while allowing for the 'credit' to be carried forward to the subsequent year of the FIP.

Relaxed know your customer (KYC) requirements

5.7 Recognising that the KYC requirements and related documentation may potentially become a hindrance in encouraging sections of the population in opening bank accounts, KYC for opening bank accounts was simplified to the extent possible. Consequently, small accounts could be opened with self-certification in the presence of bank officials. Further, Aadhaar, the unique identification number allotted by the Unique Identification Authority of India (UIDAI), Government of India was allowed to be used as one of the eligible documents for meeting KYC requirement for opening a bank account. In September 2013, banks were allowed to provide e-KYC services based on Aadhaar thus paving the way for bank accounts to be opened by all and facilitating easy access to banking services.

II. Recent policy initiatives and developments

Revised priority sector lending guidelines

5.8 Priority sectors refer to those sectors of the economy such as agriculture, small enterprises and housing for poor people which, though viable and creditworthy, may not get timely and adequate credit

in the absence of a special dispensation. The priority sector lending policy of the Reserve Bank envisages that banks extend credit to the priority sector as part of their normal business operations and not as a corporate social responsibility. Towards this end, pricing of all credit has been made free, though with the expectation that it will not be exploitative.

5.9 Drawing upon the recommendations of an Internal Working Group set up by the Reserve Bank,² revised guidelines on priority sector lending were issued in April 2015. The salient features are:

- Separate targets of 8 per cent³ for small and marginal farmers (within the agriculture target of 18 per cent) and 7.5 per cent for micro enterprises to be achieved by 2017. After a review in 2017, these targets will be made applicable to foreign banks with 20 branches and above from 2018.
- Coverage of the priority sector widened to include medium enterprises, social infrastructure and renewable energy (Bank loans of up to ₹150 million for solar-based power generators, biomass-based power generators, wind mills, micro-hydel plants, *etc.* For individual households, the loan limit is ₹1 million per borrower).
- Priority sector lending compliance to be monitored on a 'quarterly' average basis from 2016-17.
- Priority sector lending certificates (PSLCs) made an eligible tradable instrument for achieving priority sector targets.
- Educational loans (including loans for vocational courses) up to ₹1 million irrespective of the sanctioned amount made eligible for the priority sector.

¹ Monetary Policy Statement April 2011.

² <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9688&Mode=0>.

³ All PSL credit targets are applicable with reference to adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposure (CEOBE), whichever is higher, of the banks.

- Export credit up to 32 per cent made eligible as part of the priority sector for foreign banks with less than 20 branches. For domestic banks and foreign banks with 20 branches and above, the incremental export credit over the corresponding date of the preceding year reckoned up to 2 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-balance Sheet Exposure (CEOBE) (whichever is higher), made eligible as part of the priority sector, subject to certain conditions.
- Foreign banks with less than 20 branches required to achieve the total priority sector target of 40 per cent of ANBC or CEOBE, whichever is higher, in a phased manner by 2020.

Priority sector lending certificates (PSLCs)

5.10 The scheme of priority sector lending certificates (PSLCs) was operationalised on April 7, 2016 to facilitate the achievement of priority sector lending targets by banks. It simultaneously incentivises surplus banks by making available a mechanism to sell their over-achievement, thereby enhancing lending to the categories under the priority sector.

5.11 The PSLC scheme⁴ enables banks that have under-achieved their PSL targets to achieve them by purchasing PSLCs from banks that have over-achieved the targets/ sub-targets. Four types of PSLCs *viz.* General, Agriculture, Small and Marginal Farmers and Micro Enterprises can be bought/ sold by banks. The entities eligible for trading in PSLCs include public sector banks, private sector banks, regional rural banks, urban co-operative banks and

small finance banks. The PSLC mechanism does not involve transfer of credit risk or underlying assets.

5.12 Banks have been provided with an on-line anonymous trading platform through the Reserve Bank's Core Banking Solution (CBS) portal e-Kuber for trading in PSLCs. PSLCs have a standard lot size of ₹2.5 million or multiples thereof and are valid till the end of the financial year, *i.e.*, March 31, irrespective of the date of issuance. The total volume traded at the end of September 2016 was about ₹140 billion.

Phase III of FIP

5.13 With the conclusion of Phase II (2013-16) of FIP in March 2016 all domestic scheduled commercial banks (including RRBs) were advised to set new board approved FIP targets for the next three years, *viz.* 2016-19. Recognising the important role of robust monitoring, banks were also advised to submit district level data on the progress made under FIPs. A snapshot of the progress reported by banks under their FIPs for certain key parameters as on September 30, 2016 is given below:

- The number of banking outlets in rural locations went up from 67,694 in March 2010 to 589,849 in September 2016.
- Urban locations covered through BCs went up from 447 in March 2010 to 91,039 in September 2016.
- The total number of Basic Savings Bank Deposit Accounts (BSBDAs) increased from 73.5 million in March 2010 to 495.2 million in September 2016. The surge in opening of BSBDAs can be attributed to the push given by the Government of India under the Pradhan Mantri Jan Dhan Yojana.

⁴ <https://rbi.org.in/scripts/NotificationUser.aspx?Id=10339&Mode=0>.

- The total number of KCC issued went up from 24.3 million in March 2010 to 46.4 million in September 2016.
- General credit cards issued went up from 1.4 million in March 2010 to 11.5 million in September 2016.
- BC-ICT transactions recorded a considerable increase during these years. From 26.5 million transactions recorded for the quarter ended March 2010, it increased to 550.6 million in the quarter ended September 2016.

Committee on medium-term path on financial inclusion

5.14 The Committee on Medium-term Path on Financial Inclusion (CMPFI) constituted by Reserve Bank of India submitted its report in December 2015. Among the various recommendations made by the committee, some of the important ones that have been implemented include:

- Framework on BC Registry and BC Certification issued to Indian Banks' Association (IBA).
- Introduction of a Movable Asset Registry.
- Universal crop insurance and satellite imagery for crop mapping and damage assessment as a part of the Pradhan Mantri Fasal Bima Yojana (PMFBY).
- Registration of mobile numbers through ATMs connected with NFS.
- Celebration of financial literacy week at regional offices.

5.15 Some of the recommendations that are under implementation include introduction of a system of professional credit intermediaries/advisors for MSMEs, a survey for assessing the level of financial literacy and inclusion across the country, a pilot

project for installing kiosks (30 interactive and 70 non-interactive) at 100 locations to encourage self-learning by people newly inducted into the financial system, impact assessment of the financial literacy camps and preparing a curriculum for training programmes for lead literacy officers by the College of Agricultural Banking (CAB), Pune.

Financial Inclusion Advisory Committee (FIAC)

5.16 The Reserve Bank had set up the Financial Inclusion Advisory Committee (FIAC) in 2012 to review Financial Inclusion (FI) policies on an on-going basis and to provide expert advice on additional efforts under FI. Considering the need for convergence of the FI efforts of various stakeholders, FIAC was reconstituted in July 2015 with representation from the Government of India, SEBI, IRDA, PFRDA with renewed focus on review and monitoring of FI and financial literacy (FL) policies and progress; impact evaluation and preparing a national strategy for financial inclusion (NSFI).

Roadmap for opening brick and mortar branches in villages with population more than 5,000 without a bank branch of a scheduled commercial bank

5.17 For increasing banking penetration and financial inclusion, brick and mortar branches are an integral component and hence it has been decided to focus on villages with population above 5000 without a bank branch of a scheduled commercial bank. Therefore, SLBC Convener Banks have been advised⁵ to identify villages with population above 5000 without a bank branch of a scheduled commercial bank in their State. As reported by SLBCs, 6,593 villages were identified and allotted among SCBs (including RRBs) for opening branches. The opening of brick and mortar branches under this Roadmap is to be completed by March 2017.

⁵ RBI circular No FIDD.CO.LBS.BC. 82/02.01.001/2015-16 dated December 31, 2015.

Streamlining the flow of credit to micro and small enterprises

5.18 In order to provide timely financial support to Micro And Small Enterprises (MSEs) facing financial difficulties during their life cycles, banks were advised⁶ in August 2015 to review their existing lending policies to the MSE sector. Accordingly, these policies were required to be modified by incorporating therein, among others, the provisions for sanctioning of a standby credit facility in case of term loans, additional working capital limits, a mid-term review of regular working capital limits and timelines for credit decisions.

Framework for the revival and rehabilitation of micro, small and medium enterprises

5.19 To provide a simpler and faster mechanism to address stress in the accounts of Micro, Small and Medium Enterprises (MSMEs), in March 2016, a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' was issued to banks, in consultation with Government of India. Under this framework, the revival and rehabilitation of MSME units having loan limits up to ₹250 million would be undertaken.

National Mission for Capacity Building of bankers for financing the MSME sector

5.20 With a view to develop entrepreneurial sensitivity amongst banks' field-level functionaries for lending to the MSME sector, in August 2015, the Reserve Bank rolled out a capacity building programme named as 'National Mission for Capacity Building of Bankers for Financing the MSME Sector' (NAMCABS) in collaboration with CAB, Pune, which involves:

- (i) Training programme for MSME division in-charges of commercial banks.
- (ii) Training the trainers of commercial bank-owned training colleges.
- (iii) Capacity building for in-charges of specialised branches for MSMEs

Financial literacy initiatives

5.21 In India, financial literacy has been regarded as a process that provides demand side support for financial inclusion. To assess the extant level of financial literacy and inclusion, a pan-India survey is being conducted by the Reserve Bank. Target-specific content for five target groups *viz.* farmers, small entrepreneurs, self-help groups (SHGs), school students and senior citizens is also being designed for tailored financial literacy programmes conducted by Financial Literacy Centres (FLCs). A pilot project for setting up 100 Centres for Financial Literacy (CFL) at the block level to scale up the existing FLC infrastructure has been initiated.

Functioning of financial literacy centres (FLCs)

5.22 Guidelines for banks' financial literacy centres and the operational guidelines for conducting camps by FLCs and rural bank branches were revised in January 2016. Banks have been advised to put in place board approved policies for stronger FLC architecture in terms of providing basic infrastructure to FLCs as well as appointing FLC counsellors. As on March 2016, 1,384 FLCs were operational. During 2015-16, 87,710 financial literacy activities (outdoor camps) were conducted by FLCs.

Pilot project on setting up Centres for Financial Literacy (CFLs)

5.23 Given the challenges of skewed distribution of existing FLCs in a few states, limited outreach and to have an exclusive focus on financial literacy at the ground level, the Reserve Bank is encouraging banks to set up CFLs at the block level on a pilot basis in a few states. The key elements of this block level CFL project are:

- a) Area based approach (block)
- b) Schedule of camps

⁶ Streamlining flow of credit to micro and small enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle', RBI, Circular, https://rbi.org.in/SCRIPTS/BS_CircularIndexDisplay.aspx?Id=10000.

- c) Skilled workforce
- d) Partnerships with NGOs
- e) Use of technology
- f) Common name and logo 'Moneywise Centre for Financial Literacy'

5.24 The pilot project to set up 100 CFLs across 10 states with support from the Financial Inclusion Fund has been initiated. Possibilities of partnerships with eligible NGOs/institutions are being explored to bring in innovative and more efficient approaches/methods for conducting financial literacy activities.

Technical group on financial inclusion and financial literacy

5.25 A Technical Group on Financial Inclusion and Financial Literacy of the FSDC sub-committee was set up to co-ordinate the efforts on financial inclusion and literacy at the policy level. The group is chaired by the Deputy Governor, Reserve Bank of India and has representatives from all regulators and the Finance Ministry. A National Centre for Financial Education (NCFE), comprising representatives from all financial sector regulators has been set up to implement the National Strategy on Financial Education (NSFE). NCFE's main role is to create material on financial education and conducting financial education campaigns across the country.

Some of the initiatives undertaken under the aegis of the Technical Group are:

Kiosk project

5.26 About 100 kiosks (30 interactive kiosks and 70 non-interactive LFDs) are being set up in five states on a pilot basis in public places like banks, post offices, collector's offices and primary health centres to promote financial awareness. The kiosks will display messages in different languages controlled from a central location.

Financial education in school curriculum

5.27 In collaboration with CBSE, NCFE has prepared financial education workbooks for classes VI to X; these are in the process of getting CBSE's final approval. Meanwhile, NCFE and the Reserve Bank are pursuing with state education boards for the adoption of the financial education workbooks in the school curriculum in their jurisdictions by appropriately integrating them with different subjects. Four state governments viz. Goa, Meghalaya, Jammu and Kashmir and Mizoram have agreed in principle to include financial education topics in state board school curricula. Talks with other state governments are at different stages.

III. The way forward

Improving financial literacy levels

5.28 Going forward, Reserve Bank envisages further steps for improving the financial literacy levels which include, among others, designing and implementing capacity building programmes for FLC counsellors and bank branch heads in rural areas and conducting surveys for obtaining insights on financial knowledge, attitudes and behaviour of the people.

Scaling-up the BC model

5.29 The Reserve Bank of India has prepared the framework for graded certification/training programme for BCs. BCs with a good track record who would undergo advanced training and receive certification shall be entrusted with more complex tasks such as handling/delivery of financial products that go beyond deposits and remittances.

5.30 In order to have a tracking system of BCs, a framework for a Registry of BC agents covering all BCs, both existing and new, has been created. The registry is intended to capture basic details including the identity of a BC, location of fixed point BCs and nature of operations.

Table 5.1: Progress made under financial inclusion plans – as on September 2016

(Scheduled commercial banks including RRBs)

Sr. No.	Particulars	Year ended March 2010	Year ended March 2016	Half year ended# September 2016
1	Banking Outlets in Rural locations – Branches	33,378	51,830	52,240
2	Banking Outlets in Rural locations – Branchless mode	34,316	534,477	537,609
3	Banking Outlets in Rural locations -Total	67,694	586,307	589,849
4	Urban Locations covered through BCs	447	102,552	91,039
5	BSBDA-Through branches (No. in million)	60.2	238.2	247.4
6	BSBDA-Through branches (Amt. in ₹ billion)	44.3	474.1	537.9
7	BSBDA-Through BCs (No. in million)	13.3	230.8	247.8
8	BSBDA-Through BCs (Amt. in ₹ billion)	10.7	164.0	181.1
9	BSBDA-Total (No. in million)	73.5	469.0	495.2
10	BSBDA Total (Amt. in ₹ billion)	55.0	638.1	719.0
11	OD facility availed in BSBDA (No. in million)	0.2	8.0	8.4
12	OD facility availed in BSBDA (Amt. in ₹ billion)	0.1	14.8	18.1
13	KCCs -Total (No. in million)	24.3	47.3	46.4
14	KCCs -Total (Amt. in ₹ billion)	1,240.1	5,130.7	5,543.4
15	GCC-Total (No. in million)	1.4	11.3	11.5
16	GCC-Total (Amt. in ₹ billion)	35.1	1,493.3	1,613.2
17	ICT-A/Cs-BC- Total number of transactions (in million) *	26.5	826.8	550.6
18	ICT-A/Cs-BC- Total amount of transactions (in ₹ billion) *	6.9	1,686.9	1,199.2

* For the reporting period FY 2009-10/FY 2015-16/Half Year April-September 16.

Provisional.

Accreditation of credit counsellors

5.31 Subsequent to the announcement in the First Bi-Monthly Monetary Policy Statement for 2016-17, Reserve Bank, after holding discussions with IBA, SIDBI and other stakeholders, finalised a framework for accreditation of credit counsellors, who can act as facilitators for entrepreneurs to access the formal financial system. Accordingly, the framework has been provided to SIDBI who have been assigned the task of rolling out the Certified Credit Counsellors scheme by acting as their registering authority.

