

FINANCIAL INCLUSION - An Update



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Our Strategy : A Bank led Model

- ⌘ Reserve Bank's approach to financial inclusion aimed at connecting people with the mainstream financial institutions.
- ⌘ RBI had chosen the bank-led model for financial inclusion- Leveraging on technology.
- ⌘ Goal of financial inclusion is better served through mainstream banking institutions as only they have the ability to offer the suite of products required to bring in effective/meaningful financial inclusion.
- ⌘ Other intermediaries and technology partners such as mobile companies have been allowed to partner with banks in offering services collaboratively.



Financial Inclusion Strategy

- ❖ RBI encouraged the ICT model which would enable banks to circumvent the barriers of geography and ensure efficient Financial Inclusion.
- ❖ ICT based delivery model - to facilitate easy up-scaling and customization, as per individual requirements.
- ❖ Strategy is to create an eco-system comprising of a combination of Branch and ICT based BC outlets for evolving an effective Financial Inclusion Delivery Model.



Initiatives taken so far

- ❖ Simplification of branch authorisation - Domestic Scheduled Commercial Banks have been permitted to freely open branches in Tier 2 to Tier 6 centres
- ❖ Banks have been mandated to open 25 % of all new branches in unbanked rural centers.
- ❖ Know Your Customer (KYC) requirements for opening bank accounts relaxed for small accounts
- ❖ Electronic Benefit Transfer for routing social security payments and other entitlements through the banking channel.
- ❖ Pricing for banks totally freed. Interest rates on advances totally deregulated



Initiatives taken so far

- ❖ **Financial Inclusion Plan for Banks** - All domestic commercial banks - public and private sector advised to forward to RBI a Board approved three year Financial Inclusion Plan (FIP) starting April 2010.
- ❖ **Roadmap for providing banking services** - In November 2009, banks were advised to draw up a roadmap for providing banking services through a banking outlet in every village having a population of over 2,000.
- ❖ **Introduction of New Products** - Making available a minimum four banking products through the ICT based BC model.



Financial Inclusion Plans

- ❖ Banks prepared Board approved three Year FIPs- April 2010 to March 2013.
- ❖ Self-set targets-FIPs to be integrated with Business plan of the banks.
- ❖ Coverage of unbanked villages, > 2000 & < 2000, Rural brick and mortar branches, Deployment of BCs.
- ❖ No-frill accounts (NFA) to be opened, including through BC-ICT, EBT, KCC, GCC.
- ❖ Specific products to be designed to cater to the financially excluded segments.
- ❖ FIP achievement- Criteria in the performance evaluation of officials of banks.
- ❖ Close Monitoring by Reserve Bank of India- Monthly Reporting- Annual Comprehensive review.



FIPs- PERFORMANCE ANALYSIS

- ❖ Completed 2 years of implementation of Board approved self set FIPs in March 2012.
- ❖ 3171 rural branches opened during the two year period.
- ❖ BCs deployed- tripled in 2 years from 33042 to 96828.
- ❖ Total No. of banking outlets gone up- from 54258 to 147534.
- ❖ 54 Million NFAs added.
- ❖ ICT based accounts -Substantial growth - Percentage of ICT accounts to total NFAs-increased from 25 % to 50%.
- ❖ Ascending trend in OD Accounts.
- ❖ 4.8 million KCC and about 1 Million GCC added.



FIPs- Achievements at a glance

Particulars	Year ended Mar 10	Year ended Mar 12	Progress -April 10 - Mar 12
No. of BCs/BC Agents Deployed	33042	96828	63786
Banking Outlets through Branches	21475	24701	3226
Banking Outlets through BCs	32684	120355	87671
Banking Outlets-Through other Modes	99	2478	2379
Total Banking Outlets	54258	147534	93276
No Frill A/Cs (No. in Millions)	49.33	103.21	53.88
Overdraft- No Frill A/Cs (No. in Millions)	0.13	1.52	1.39
BC- ICT Based A/Cs (No. in Millions)	12.54	52.07	39.53
EBT A/Cs-through BCs (No. in Millions)	7.48	21.76	14.28
KCC(No. in Millions)	17.63	22.34	4.71
GCC(No. in Millions)	.45	1.27	.82



Roadmap - Villages > 2000 population

- ⌘ At least one banking outlet in all unbanked villages with population > 2000 through Branch/BC/Other Modes.
- ⌘ Roadmap prepared for opening of banking outlets till March 2012 – **74414** villages identified and allotted among all banks.
- ⌘ Progress upto March 2012 - Banking outlets opened in **74199** villages: 2493 Branches, 69374 BCs, 2332 Other Modes.
- ⌘ Outlets opened in all the **22852** Villages allotted to RRBs: 761 Branches, 20985 BCs, 1023 Other Modes



Issues and Challenges

- ⌘ Demographic Spread – How to provide banking services to villages with low population – Viability?
- ⌘ Appropriate Business Model Yet to evolve - Availability of Suitable products.
- ⌘ Efficient Delivery Mechanism – being experimented.
- ⌘ Financial Literacy – Status of awareness.
- ⌘ Lack of ownership by banks in implementation under Financial Inclusion.
- ⌘ Lack of co-ordination.
- ⌘ ICT Based BC Model - Yet to stabilise.



BC Model - Challenges

- ⌘ Being perceived more as an obligation than a business opportunity.
- ⌘ Infrastructure issues- Premises, Roads, Power, etc.
- ⌘ Less transactions- Non-operational accounts- High volume small value transactions- High Cost -Viability issues.
- ⌘ Technology issues- availability of handheld devices, cards, technology partners, operational glitches, Digital connectivity, Turnaround time.
- ⌘ Engaging BCs- Associated risks - Lack of professionalism of BCs.
- ⌘ BC attrition- Inadequate remuneration- Non payment of commission.



Recent Initiatives – Financial Inclusion

- ❖ Monetary Policy Actions – Mandated SLBCs to prepare a roadmap for covering all **unbanked villages of population less than 2,000** and allot these villages to banks for providing banking services in a time-bound manner.
- ❖ Advised banks to **open intermediate brick and mortar structure** between the base branch and BC locations. These structures having minimum infrastructure like a CBS terminal, pass book printer, safe for cash retention, etc. will be at a reasonable distance of 3-4 kilometers and will provide support to about 8-10 BC units – Will lead to efficiency in cash management, documentation, redressal of customer grievances.
- ❖ Satellite offices in the form of Ultra Small BC outlets are also mandated and being encouraged
- ❖ Advised sponsor banks to formulate Financial Inclusion Plans for RRBs. Progress to be monitored by NABARD and Regional Offices of RBI.
- ❖ Disaggregation of FIP from Head Office to branch level- Banks already advised to put in place a mechanism to monitor the progress at the branch level periodically.



Recent Initiatives – Financial Literacy

- ❖ Financial Literacy & Financial Inclusion should go together
- ❖ Financial Stability Development Council has been mandated to focus on Financial Inclusion and Financial Literacy.
- ❖ A technical group on Financial Inclusion and Financial Literacy under aegis of FSDC is coordinating the efforts of all Financial Sector regulators.
- ❖ Discussion with NCERT/CBSE and State Boards- Efforts on to include financial education curriculum in school education.
- ❖ Financial Literacy Centres to be set up in all 630+ LDM offices – All rural branches of Scheduled Commercial Banks to undertake FL activities.
- ❖ National strategy on financial education being prepared.



Financial Inclusion - A dream or reality ?

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- ❖ Achievements cannot be ignored - Nearly 100 Million no frills accounts have been opened by banks so far. When we started, we were all saying people have no bank accounts, now with bank accounts being opened we are complaining that there are no transactions in these accounts. Banks need to be given time for making these NFAs active.
- ❖ Banks must be able to see Financial Inclusion as a business opportunity. The Technology is critical for this as brick and mortar branches would not be cost effective and that is why BC- ICT model is the key.
- ❖ The market players i.e. banks must be allowed to discover the business and delivery model. To ensure that banks do not get complacent they should be actively encouraged to set targets for themselves and for capturing untapped business in rural areas covering approximately 2/3rd population of the country.
- ❖ EBT, Remittances and credit products will play a key role in making this experiment a commercial success.



Way forward

- ❖ All stakeholders like RBI, Other sectoral regulators like SEBI, IRDA, PFRDA, etc., NABARD, Banks, Governments, Civil Societies, NGOs, etc. to work together for a sound and purposeful collaboration.
- ❖ Adequate infrastructure such as digital and physical connectivity, uninterrupted power supply, etc. will boost the financial inclusion initiatives.
- ❖ If the EBT scheme succeeds and if Banks are allowed to develop the business and delivery models, operations through BCs would become viable and the number of transactions in these accounts will increase.
- ❖ Demand side initiatives - Create awareness, literacy, national strategy, Curriculum in schools at national level.
- ❖ Sensitization - Efforts to be made so as to bring about cultural and attitudinal changes in the mindset of all stakeholders.



IT IS POSSIBLE

Banking in all 6 lakh villages - A big challenge, but definitely achievable

We have got an opportunity to contribute a bit in changing lives of under privileged

Let us put our heart into it - Pursue as personal agenda. make it a passion of our life



THANK YOU