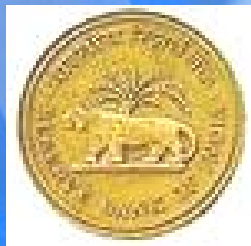


Pushing Financial Inclusion – Issues, Challenges and Way Forward



**-A Presentation by Dr. K.C.Chakrabarty
Deputy Governor, RBI
At 20th SKOCH Summit 2009, Mumbai on July 17, 2009**

Financial Inclusion - Definition



✳ *“The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”*

- The Committee on Financial Inclusion
(Chairman: Dr. C. Rangarajan, 2008)

“The process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players.”

Financial Inclusion - Scope



- * Financial Inclusion should include access to financial products and services like,
 - * Bank accounts – check in account
 - * Immediate Credit
 - * Savings products
 - * Remittances & Payment services
 - * Insurance - Healthcare
 - * Mortgage
 - * Financial advisory services
 - * Entrepreneurial credit

Financial Exclusion – Who are these People



- * Underprivileged section in rural and urban areas like, Farmers, small vendors, etc.
- * Agricultural and Industrial Labourers
- * People engaged in un-organised sectors
- * Unemployed
- * Women
- * Children
- * Old people
- * Physically challenged people

Extent of Financial Exclusion



1. Coverage of (Estimates based on various studies and Market Surveys):
 - Check in accounts - 40%
 - Life Insurance - 10.0%
 - Non-Life Insurance - 0.6%
 - Credit Card - 2%
 - ATM + Debit Card - 13%

2. Geographical coverage
 - 5.2% villages are having a bank branch

3. Farmers coverage-
 - Out of 119 million farmers, small and marginal farmers are 97.7 million (82.1 %)

Financial Inclusion – Steps Taken



- * Co-operative Movement
- * Setting up of State Bank of India
- * Nationalisation of banks
- * Lead Bank Scheme
- * RRBs
- * Service Area Approach
- * Self Help Groups

--- Still We Failed!

--- Why?

Financial Exclusion – Why Have We Failed?



- ❖ Absence of Technology
- ❖ Absence of reach and coverage
- ❖ Delivery Mechanism
- ❖ Not having a Business model
- ❖ Rich have no compassion for poor

Why Are we Talking of Financial Exclusion Now?



- ✳ Focus on Inclusive Growth
- ✳ Banking Technology has arrived
- ✳ Realisation that Poor is bankable

What Are RBI 's Contribution



- * No-Frill Accounts
- * Overdraft in Saving Bank Accounts
- * BC / BF Model
- * KCC / GCC Guidelines
- * Liberalised branch expansion
- * Liberalised policy for ATM
- * Introducing technology products and services
 - * Pre-Paid cards, Mobile Banking etc.
- * Allowing RRBs' / Co-operative banks to sell Insurance and Financial Products
- * Financial Literacy Program
- * Creation of Special Funds
- * 431 districts identified by the SLBC convenor banks for 100 per cent financial inclusion across various States/UTs and the target in 204 districts of 21 States and 7 UTs has reportedly been achieved

What Have We Achieved



- * **Number of No-Frill Accounts – 28.23 million (as on Dec. 31, 2008)**
- * **Number of rural bank branches – 31,727 constituting 39.7% of total bank branches (as on June. 31, 2009)**
- * **Number of ATMs – 44,857 (as on May 31, 2009)**
- * **Number of POS – 4,70,237 (as on May 31, 2009)**
- * **Number of Cards – 167.09 million (as on May 31, 2009)**
- * **Number of Kisan Credit cards – 76 million** (Source: CMIE publication 2007-08)
- * **Number of Mobile phones–403 million (as on Apr.30, 2009)**
– out of which 187 million (46%) do not have a bank account (Source: Cellular Operators Association of India)

Population Per Bank Branch (SCBs)



(Thousand)

End-March	Rural	Urban	Total
1969 (June)	82	33	63
1981	20	17	19
1991	14	16	14
2001	16	15	16
2007	17	13	16



Number of people per branch still very high

Source: Report on Currency and Finance 2006-08 (BSR of SCBs)

Number of Savings Accounts



(Million)

Institution / End-March	1993	2002	2007
Scheduled Commercial Banks	246	246.5	320.9
Regional Rural Banks	30.5	36.7	52.7
Primary Agricultural Credit Societies	89	102.1	125.8
Urban Co-operative Banks	41.6	42	50
Post Offices	47.5	60.2	60.8
Total	454.6	487.1	610.3
Total Accounts per 100 Persons	51	46	54

✳ Total Accounts per 100 persons still too less!

Source: Report on Currency and Finance 2006-08

Earners Having a Bank Account-2007



(Per cent of Total Earners)

Annual Income (Rs.)	Urban	Rural	Total
< 50,000	34.1	26.8	28.3
50,000 – 100,000	75.5	71.2	73
100,000 – 200,000	91.8	87.4	89.9
200,000 – 400,000	95.5	93.6	94.9
> 400,000	98.0	96.3	97.6
All	61.7	38.0	44.9

- * **Very low percentage in people having bank accounts in Annual Income less than Rs.50,000 bracket in urban and rural area**
- * **Even in higher income bracket exclusion exists**

Source: Report on Currency and Finance 2006-08 (IIMS, 2007)

Sources of Loans



(Per cent of Indebted Earners)

Annual Income	Banks	Money Lenders	Other Institutional & Non-Institutional Sources	Total
< 50,000	13.0	34.9	52.1	100
50,000 – 100,000	34.5	19.6	45.9	100
100,000 – 200,000	49.3	12.0	38.7	100
200,000 – 400,000	51.6	11.8	36.6	100
> 400,000	62.8	5.5	31.7	100

People having Annual Income less than Rs.50,000 bracket still heavily dependent on money lenders

Source: Report on Currency and Finance 2006-08 (IIMS Survey, 2007)

Purpose of Loans



Purpose of Loan (All Sources)	No. of Loan Taking Earners (million)		Per cent to Loan Taking Earners	
	Rural	Urban	Rural	Urban
Meeting Financial Emergency	20.2	4.7	26.3%	31.0%
Medical Emergency	12.5	1.8	16.3%	11.7%
Business Needs	7.1	2.1	9.3%	14.0%
Others	36.8	6.5	47.1	43.3
Total	76.6 mn	15.1 mn	100%	100%
From Non-Institutional Sources				
Meeting Financial Emergency	15.4	3.4	29.4%	34.3%
Medical Emergency	10.5	1.5	20.1%	14.8%
Business Needs	3.9	1.2	7.5%	12.3%
Others	22.6	3.8	43.0%	38.6%
Total	52.4 mn	9.9 mn	100%	100%
From Institutional Sources				
Meeting Financial Emergency	4.8	1.3	19.6%	24.9%
Medical Emergency	2.0	0.3	8.1%	6.0%
Business Needs	3.2	0.9	13.0%	17.1%
Others	24.2	5.3	59.3%	52.0%
Total	24.2 mn	5.3 mn	100%	100%

Source: Report on Currency and Finance 2006-08 (IIMS Survey, 2007)

Purpose of Loans ..



- ❖ **From various estimate sources and IIMS survey we find that still 50% of loans are to meet the emergency rather than for business needs**
- ❖ **Even rich people are excluded**
- ❖ **Even rich people have to depend on non-institutional sources for loan purposes**

Problems / Difficulties



- * Scaling up of activities
- * Transaction cost too high
- * Appropriate business model yet to evolve
- * BC model too restrictive
- * Limitation of cash delivery points
- * Lack of Interest / Involvement of Big Technology Players

Pre-requisites For The Success of Financial Inclusion



- * Appropriate Technology
- * Appropriate and Efficient Delivery model
- * Mainstream banks' determination and involvement
- * Strong Collaboration among Banks, Technical Service Provider, BC Services
- * Involvement of all
 - * Especially the state administration at grass-root level
- * Liberalisation of BC model

Report of the Financial Inclusion in India (Chairman: Dr. C. Rangarajan, 2008)



- ✳ Setting up of a National Rural Financial Inclusion Plan with a target of providing access to financial services to at least 50 per cent (50.77 mn) of excluded rural households by 2012 and the remaining by 2015
- ✳ Encouraging SHGs in excluded regions, measures for urban micro-finance and separate category of MFIs
- ✳ RRBs to extend banking services to unbanked areas
- ✳ Use of PACS and other co-operatives as BCs and co-operatives to adopt group approach for financing excluded groups

Global Meltdown - An Opportunity



- * Focus on Inclusive Growth
- * Focus on Domestic Consumption and Investment
- * Focus on increased Social Sector Spending
- * Emphasis on giving benefits to poor clients
- * Global (bigger) players looking Inward
- * Reduction of Cost (?)

**Let us Give One Big Push to
Financial Inclusion!**

Thank You

