

“Role of Banking in Development - Development Initiatives by RBI - Lead Bank Scheme”

Presentation
at
Lal Bahadur Shastri
National Academy of Administration, Mussorie
April 15, 2014

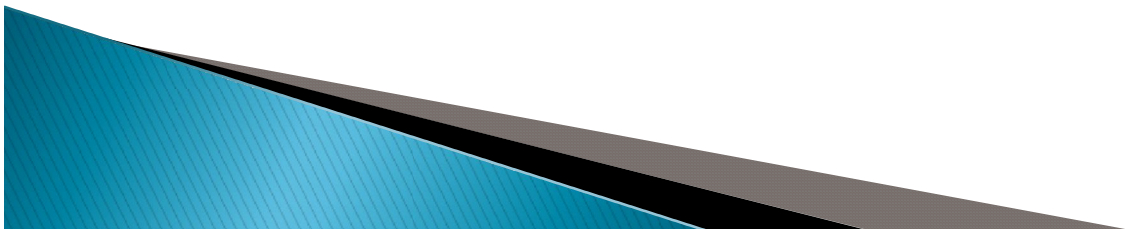
Dr. (Smt.) Deepali Pant Joshi
Executive Director, Reserve Bank of India

Presentation Schema

- ▶ Role of Banking in Development
- ▶ Development initiatives by RBI
- ▶ Lead Bank Scheme
- ▶ Issues , Challenges & Initiatives
 - Credit Flow
 - CD Ratio
- ▶ Financial Inclusion
- ▶ Financial Literacy

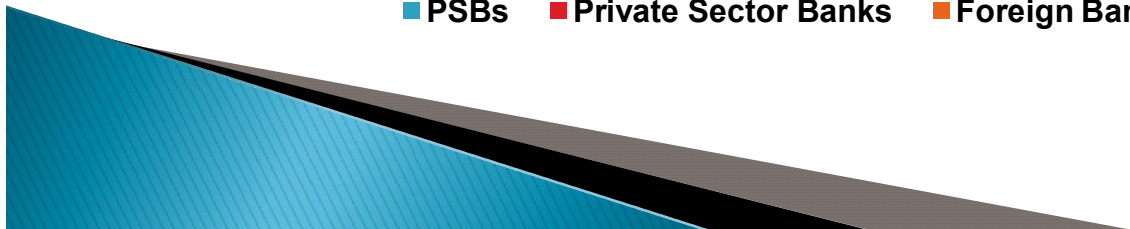
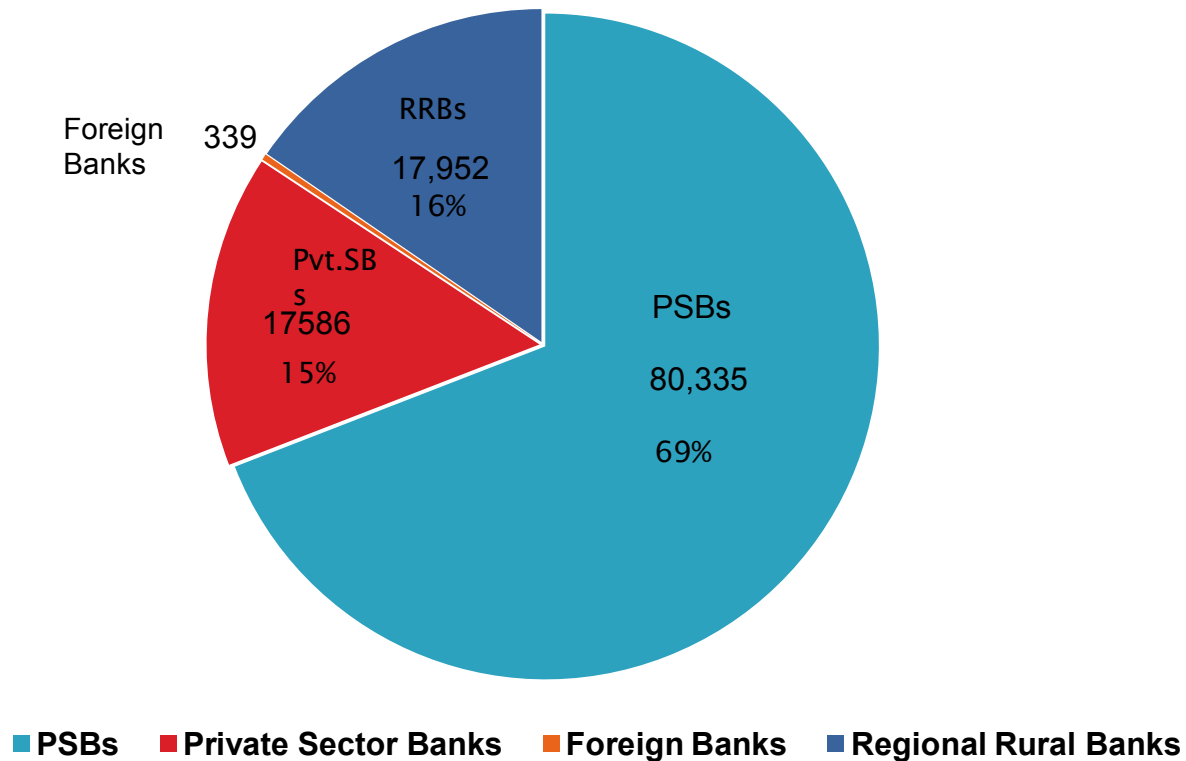
Role of Banking in Development

- ▶ Commercial banks contribute much to the growth of the economy through **financial intermediation** by promoting savings and extending loans to agriculture, trade and industry, by helping in physical and human capital formation and by transmitting the monetary policy signals formulated by the Central bank of the country
- ▶ In terms of **Section 5** of the Banking Regulation Act, 1949, “banking” means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise



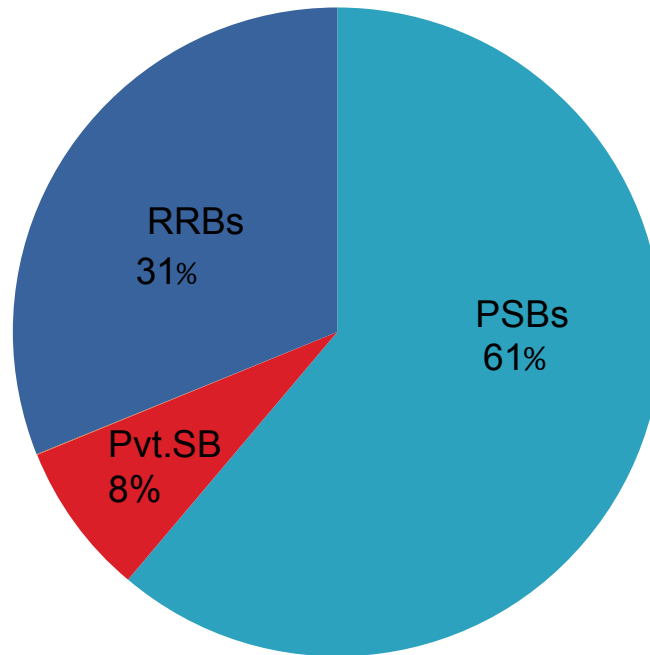
Branch wise Network of Commercial Banks – December 2013

Branch Network of Commercial banks
as of Dec 2013



Rural Branch Network of Commercial Banks – December 2013

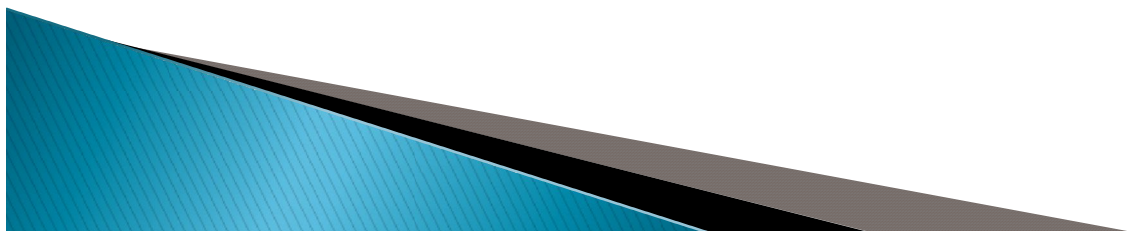
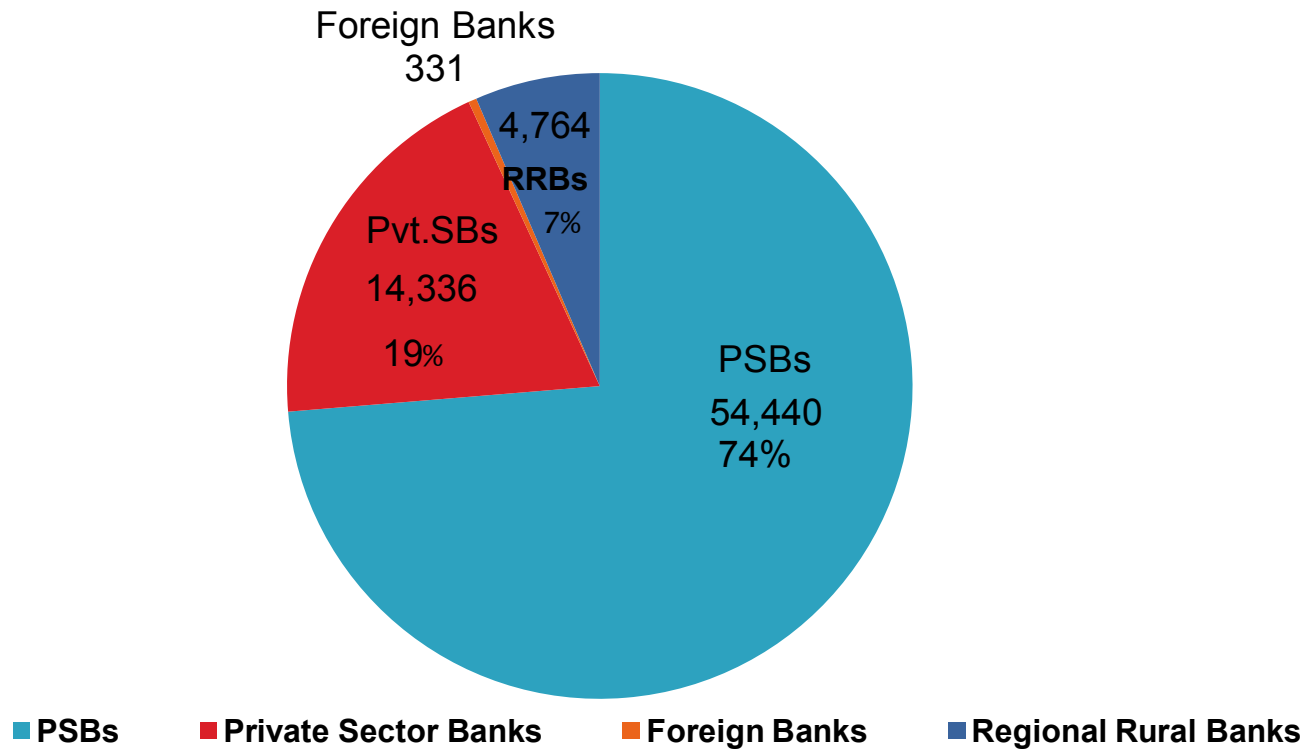
Rural Branch Network of Commercial Banks as of December 2013



■ PSBs ■ Private Sector Banks ■ Foreign Banks ■ Regional Rural Banks

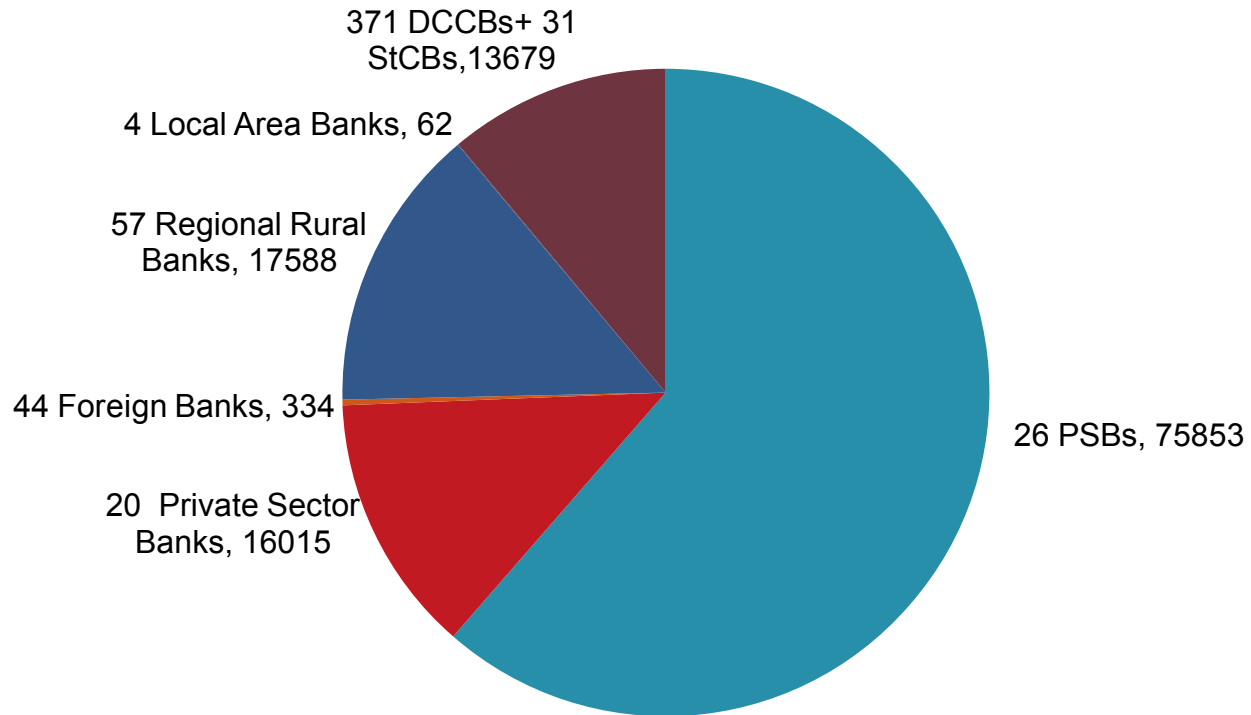
Urban Branch Network of Commercial Banks – December 2013

Urban Branch Network of Commercial Banks as of Dec' 2013

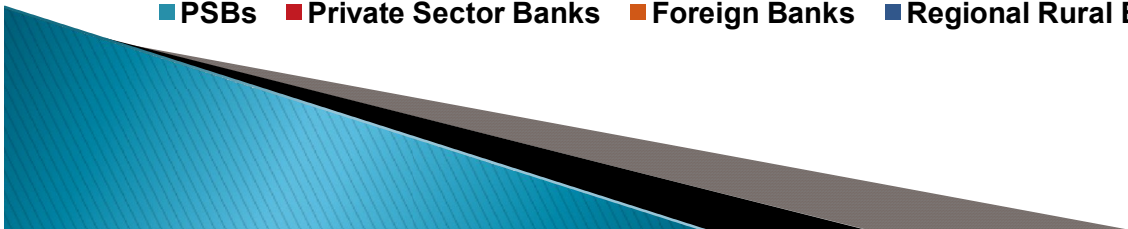


Bank Group-wise Branch Network – March 2013

Bank Group-wise Branch Network as of March 2013



■ PSBs ■ Private Sector Banks ■ Foreign Banks ■ Regional Rural Banks ■ Local Area Banks ■ DCCBs+StCBs



Development initiatives by RBI

- ▶ RBI, as the regulator of banks has played a pivotal role in development of banking in India
- ▶ **Major development initiatives of RBI -**
- ▶ In addition to the core functions..., RBI took proactive steps in extending banking facilities to rural and semi-urban areas, Adoption of lead bank scheme, Establishment of specialized financing agencies Deposit Insurance Credit Guarantee Corporation, Industrial Development Bank of India, Unit Trust of India, National Housing Bank, National Bank for Agriculture and Rural Devp, etc.
- ▶ In terms of section 54 of the RBI Act, 1934, RBI maintains expert staff to study various aspects of rural credit and development to tender expert guidance and assistance to NABARD and conduct special studies in areas for promoting integrated rural development
- ▶ Prescription of priority sector lending norms
- ▶ Ensuring better banking customer service, Financial Inclusion and Financial Literacy initiatives, etc.

Lead Bank Scheme – Need - Features

Origin:

- Lead Bank Scheme was introduced by RBI in December 1969

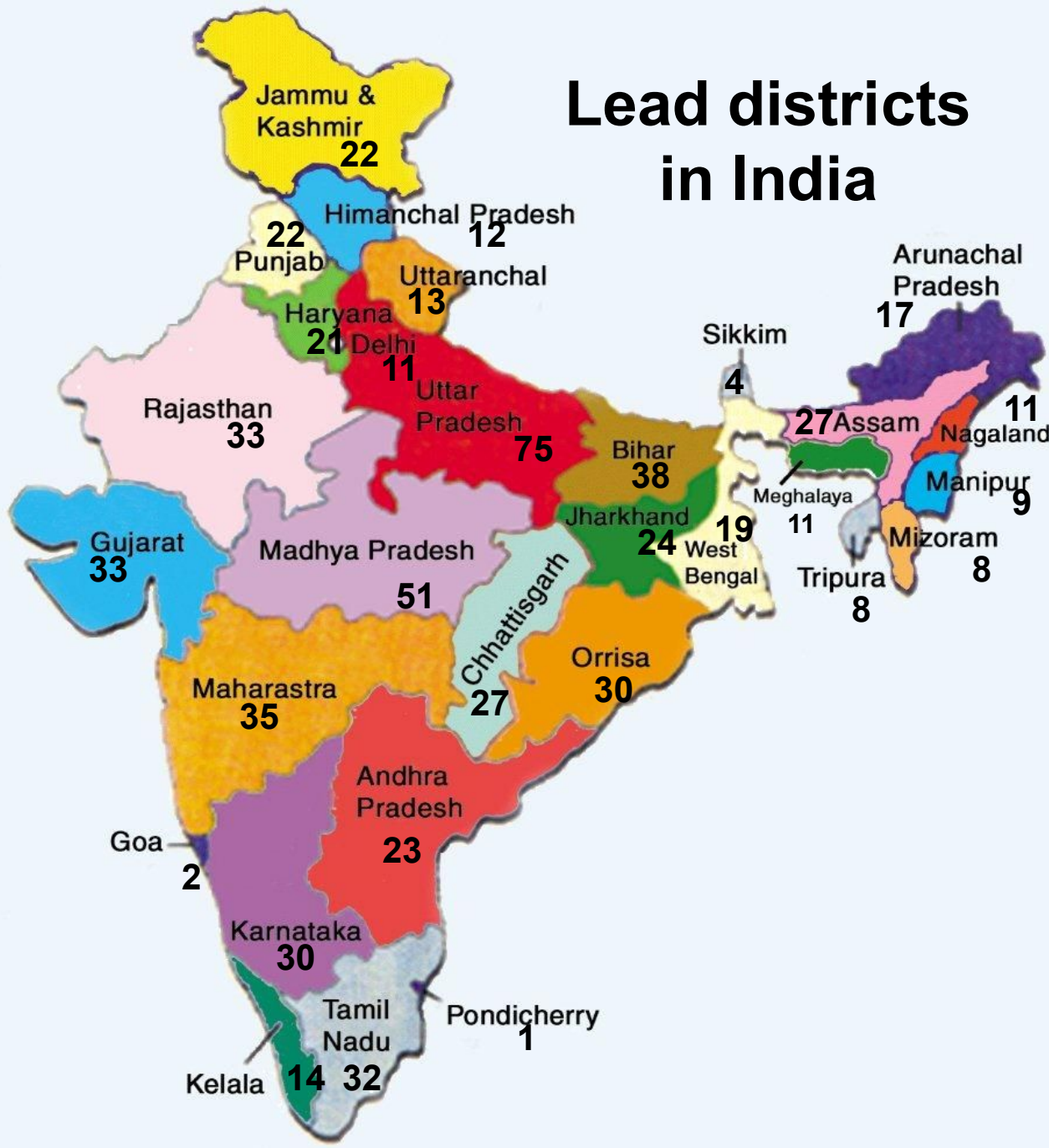
Need :

- To develop a structure so that the benefits of banking reach the poor
- ▶ To bring grass root functionaries of banks & Government agencies together
- ▶ Nationalisation of 14 banks & green revolution in 1969, requirement of timely, adequate institutional credit and quality inputs

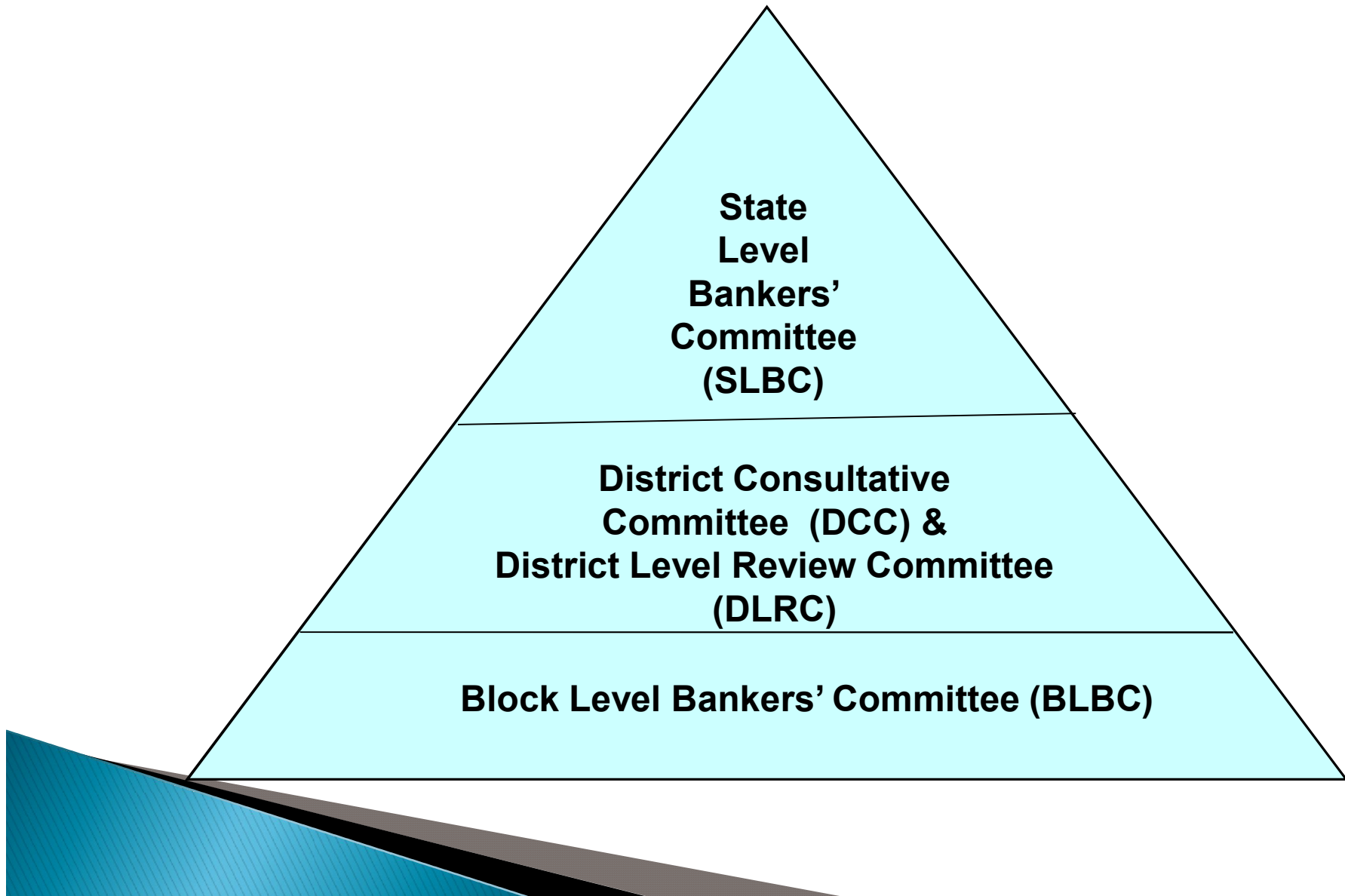
Features:

- ▶ For credit planning , coordination of activities of banks ,financial institutions & Government Departments
- ▶ Oversee flow of credit to various sectors in rural areas, implementation of Govt. sponsored poverty alleviation and employment generation schemes
- ▶ **DISTRICT** as unit of development viz. One bank in each district-lead bank
- ▶ **Coverage:** Initially, rural and semi urban areas. Now, 671 districts including 16 districts in metropolitan areas of Kolkata (1), Hyderabad (1), Chennai (1), Mumbai (2), Delhi (11) to address urban financial inclusion

Lead districts in India



Committees under Lead Bank Scheme



SLBC Convenor banks and lead banks

SLBC Convenor banks (16)

- ▶ **Andhra Bank**
- ▶ **Bank of Baroda**
- ▶ **Bank of India**
- ▶ **Bank of Maharashtra**
- ▶ **Canara Bank**
- ▶ **Central Bank of India**
- ▶ **Dena Bank**
- ▶ **Indian Bank**
- ▶ **Indian Overseas Bank**
- ▶ **J & K Bank Ltd.**
- ▶ **OBC**
- ▶ **Punjab National Bank**
- ▶ **State Bank of India**
- ▶ **Syndicate Bank**
- ▶ **UCO Bank**
- ▶ **United Bank of India**

Lead Banks (26)

- ▶ **Allahabad Bank**
- ▶ **Andhra Bank**
- ▶ **Bank of Baroda**
- ▶ **Bank of India**
- ▶ **Bank of Maharashtra**
- ▶ **Canara Bank**
- ▶ **Central Bank of India**
- ▶ **Corporation Bank**
- ▶ **Dena Bank**
- ▶ **Indian Bank**
- ▶ **Indian Overseas Bank**
- ▶ **J & K Bank Ltd.**
- ▶ **OBC**
- ▶ **Punjab & Sind Bank**
- ▶ **Punjab National Bank**
- ▶ **SBBJ**
- ▶ **State Bank of Hyderabad**
- ▶ **State Bank of India**
- ▶ **State Bank of Mysore**
- ▶ **State Bank of Patiala**
- ▶ **State Bank of Travancore**
- ▶ **Syndicate Bank**
- ▶ **UCO Bank**
- ▶ **Union Bank of India**
- ▶ **United Bank of India**
- ▶ **Vijaya Bank**

Functionaries under Lead Bank Scheme

| Forum | Banks/Fl | Govt. Authorities |
|--|--|--|
| <p align="center">SLBC</p> <p>Convenor: SLBC Convenor Bank of the State Chairman: CMD of SLBC Convenor Bank and Addl. Ch. Secretary to co-chair Invitees: CM/FM, National Comm. for SC/ST, State Minorities Fin. Corpn., NGOs, select LDMs</p> | <p>Regional Director-RBI, CGM-NABARD, State-In-Charge-SIDBI, Industrial financial Corporation of India, PSBs, Pvt.SBs Chairmen- RRBs, MD-State cooperative Bank, State Cooperative Agriculture & Rural Development Bank, MD-SFC</p> | <p>Secretary-Planning, Finance, Ag., Rural Devp. , Poverty alleviation, industries, Director, Inst. Finance, Registrar Cooperative Societies</p> |
| <p align="center">DCC & DLRC</p> <p>Convenor: Lead District Manager of lead bank Chairman: Dist. Collector/ Dist. Magistrate/ Dy. Commissioner Invitees: Issue based, other Govt. Depts., Corporations Invitees: in DLRC: Public representatives-MLAs, MPs, ZP President</p> | <p>RBI-Lead District Officer, NABARD-Dist. Devp. Mgr., RMs of 5 or 6 big PSBs in district, In-charges of RRBs, Pvt.SBs, GM-DCCB, Representatives of Primary Cooperative Agriculture & Rural Development Bank, SFC, KVIB</p> | <p>CEO-ZP, Project Director-DRDA, Dist. Planning Officer, GM-DIC, Exec. Officer-SC, ST, BC Corporations, Dist. In-charges of Agri., Animal Husbandry and Industries, Dist. Dy. Registrar-Co-operatives</p> |
| <p align="center">BLBC</p> <p>Convenor: Manager of the branch of lead bank in the block HQ Chairman: Lead District Manager of lead bank</p> | <p>RBI-Lead District Officer may attend selectively BMs of all commercial banks, RRBs, DCCBs and Primary Cooperative Agriculture & Rural Development Bank</p> | <p>BDO, Tahsildar, Line Departments Officers of , Other Govt. Depts.</p> |

Implementation – Planning

State Level Credit Plan

District Credit Plan

Block Credit Plan

Branch Credit Plan

BOTTOM UP APPROACH

LBS – State Level Bankers' Committee

- ▶ Apex forum under LBS – Meetings held at quarterly intervals as per annual calendar. At present 35 SLBCs (29 SLBCs and 6 UTLBCs)
- ▶ Sub-committees of SLBC are formed for various purposes

Major Functions:

- ▶ To take up the impediments of development of banking system in the state with the State Govt. authorities
- ▶ To discuss issues, problems & arrive at solutions in the field of agricultural and rural development, banking development, financial inclusion and evolve consensus for action

To undertake critical analysis of the progress of the implementation of Annual Credit Plans (ACPs), credit linked programmes / schemes of Government and other agencies in various districts

LBS – DCC, DLRC fora–Role of District collectors- Issues

- ▶ DCC to form need based sub committees such as CD Ratio, financial inclusion, financial literacy, education loan, credit flow to MSE sector, Bank-SHG linkage/Joint Liability Groups (JLGs), etc.
- ▶ DCC & DLRC meetings are held at quarterly intervals and DLRC to be held in the month subsequent to holding of DCC.
- ▶ In **DLRC**, public representatives-MLAs, MPs, ZP President to be invited
- ▶ As chairman of DCC & DLRC, the **District Collectors** play a vital role in the economic development of the district. DCs to guide and lead the functionaries and be empathetic for achieving the development goals under Lead Bank Scheme
- ▶ **Issues:**
- ▶ Preparation of DCC & DLRC Calendar and holding of meetings as per calendar and effective utilisation of the fora for achieving social good
- ▶ Support from all stake holders
- ▶ Popularising BC model
- ▶ Appropriate level of participation in meetings
- ▶ Data submission by banks to lead bank

High Level Committee to review LBS

Need for High Level committee formation

- ▶ Rapid changes in the banking sector & focus on inclusive growth, Widening & deepening of banking services
- ▶ Continuous additions to SLBC's responsibilities
- ▶ Lead Bank Scheme deteriorated to a ritual i.e. lack of seriousness by stake holders & concentrating only on Govt. sponsored schemes
- ▶ Incorrect and delayed data submission by banks
- ▶ Inadequate infrastructure facilities at SLBC/ lead bank offices
- ▶ RBI constituted High Level Committee to review in 2008 and evaluate the continuing relevance

Recommendations

- ▶ Lead Bank Scheme shall continue as the overarching objective of LBS is to enable the banks and State Governments to work together for inclusive growth
- ▶ LBS to aim at comprehensive Financial Inclusion using multiple channels, intermediaries and Information Technology
- ▶ To draw up a roadmap for provision of banking outlets in unbanked villages with population > 2000 by Mar' 2012 to give an impetus to financial inclusion in the hitherto neglected areas

Recommendations of HLC (contd...)

Strengthening role of State Government

- Providing infrastructure and facilitating financial inclusion

Strengthening role of SLBC

- Addl. Chief Secretary of State Government & CMD of SLBC bank to co-chair SLBC meetings; CM/FM to be urged to attend at least one SLBC
- SLBC to steer financial literacy program.
- Strengthening DCC & LDM machinery – Appropriate scale official with adequate powers, support staff, infrastructure

Capacity Building of stakeholders assumes importance for their effective functioning

Credit Plus Activities are important

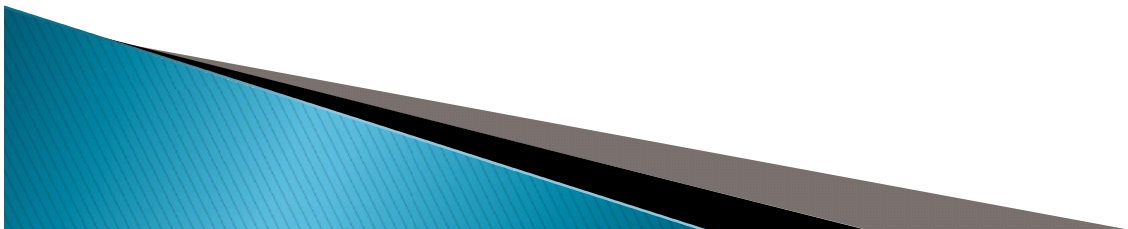
- Monitoring of credit plus activities of banks/ State Govt. Capacity/ skill building of farmers/ small entrepreneurs
- Access to new technology & practices
- Facilitate setting up of Financial Literacy Cells (at present 896 FLCs in the country)
- Setting up Rural Self Employment Training Institutes (RSETI) as per plan projections of the Government. Number of RSETIs as on 31.03.2013 - – 578

Grievance Redressal :

- Quarterly district level grievance redressal meetings by lead bank

Issues & Challenges

- ▶ **Augmenting credit flow to various sectors of economy**
 - Priority sector lending
 - Credit Deposit Ratio
- ▶ **Financial Inclusion**
- ▶ **Financial literacy**



Issues & Challenges – Priority sector lending

- ▶ **Priority sector** refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. Those sectors which are able to get timely and adequate credit would not qualify for status of priority sector
- ▶ **Categories** under Priority sector : Agriculture , Micro and Small Enterprises, Education, Housing , Export Credit, Others
- ▶ **Priority Sector targets** are allocated bank wise on pan India basis

Targets under priority sector

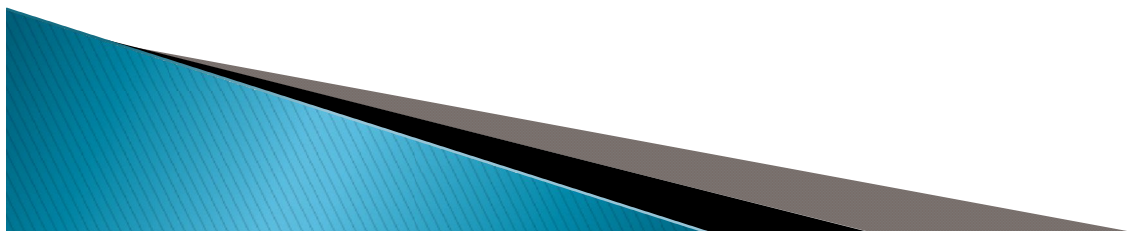
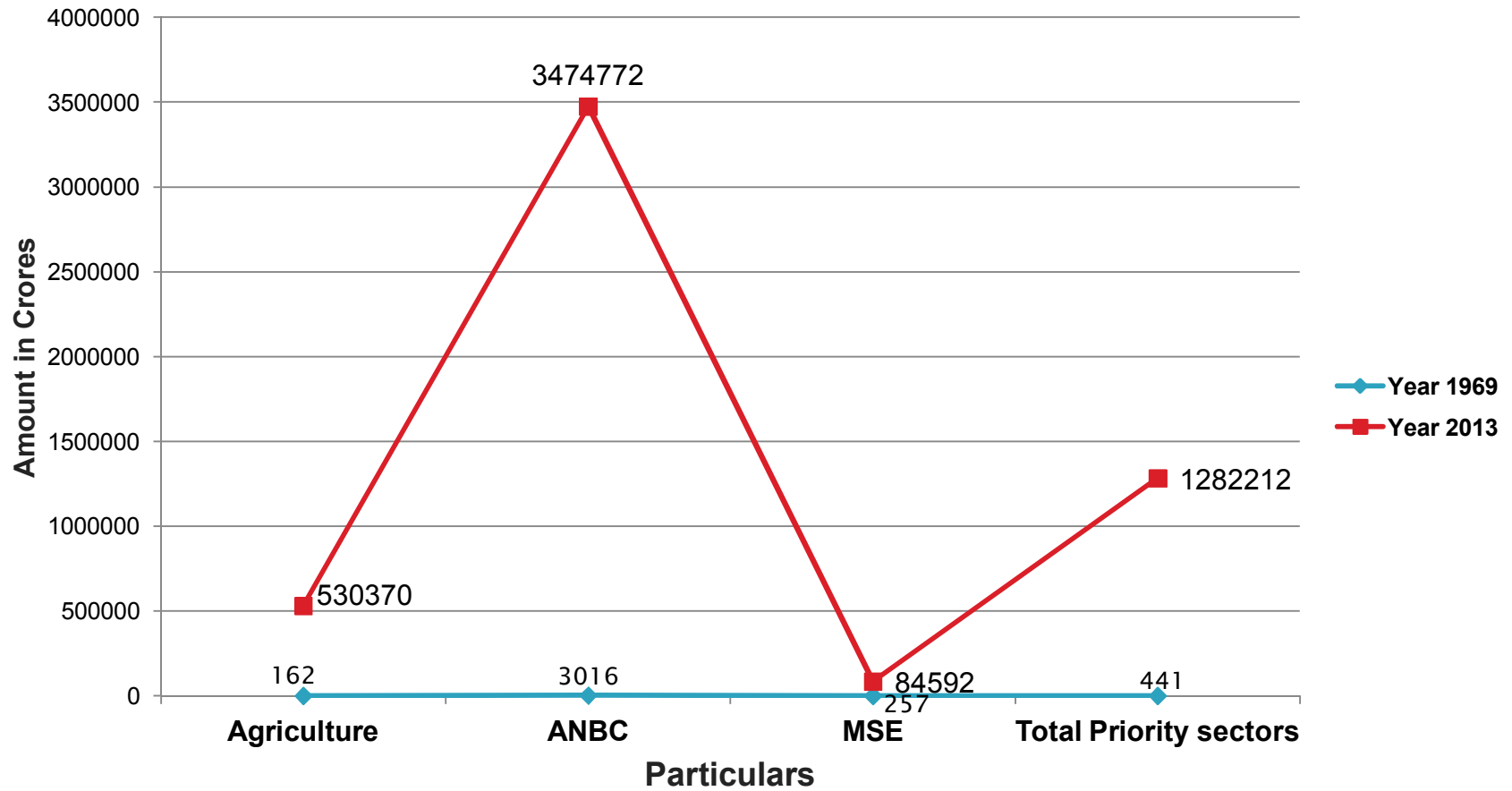
| Category | Domestic banks/ Foreign banks with 20 and above branches | Foreign banks with less than 20 branches |
|--|--|---|
| Total Priority Sector | 40 percent of ANBC | 32 percent of ANBC |
| Agriculture | 18 percent of ANBC | No specific target |
| Micro & Small Enterprises (MSE) | No specific target | No specific target |
| Advances to Weaker Sections | 10 percent of ANBC | No specific target |

(ANBC: Adjusted Net Bank Credit)

Status of lending under priority sector

| Particulars | 1969 | 2013 |
|--|----------------|-------------------|
| Agriculture | 162 (5.4) | 530370 (15.3) |
| MSE | 257.0 (8.5) | 84592 (13.7) |
| Total priority sectors | 441 (14.6) | 1282212 (36.9) |
| ANBC | 3016 (100) | 3474772 (100) |
| <p>(Amount in Rs. Crore): Figures in brackets – percentage of ANBC ANBC: Adjusted Net Bank Credit</p> | | |

Status of lending in priority sector



Government Sponsored Schemes

Reserve Bank of India monitors the flow of credit under the following credit linked Government Sponsored Schemes implemented by various Ministries of the Government of India

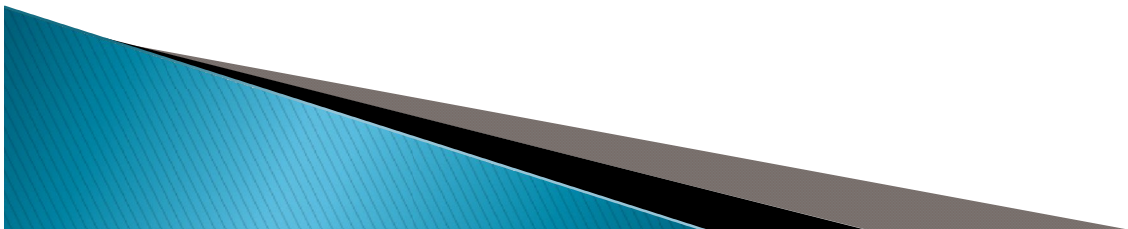
RBI issues guidelines / instructions to banks periodically on proper Implementation of Centrally Sponsored Schemes and collates bank Wise/State wise data on achievements made by the banks on these Schemes on the basis of returns submitted by them

1. National Rural Livelihood Mission (**NRLM**): formerly Swarna jayanti Gram Swarozgar Yojana (SGSY) implemented by the Ministry of Rural Development, GOI through Scheduled Commercial Banks, Regional Rural Banks, Co-operative Banks
2. National Urban Livelihood Mission (**NULM**) formerly Swarna Jayanti Shahari Rozgar Yojna (SJSRY) implemented by the Ministry of Housing and Urban Poverty Alleviation, GOI through Scheduled Commercial Banks (excluding RRBs)

Government Sponsored Schemes contd...

3. Self Employment Scheme for Rehabilitation of Manual Scavengers (**SRMS**) implemented by the Ministry of Social Justice and Empowerment, GOI through Public Sector Banks
4. Differential Rate of Interest (**DRI**) Scheme implemented by the Ministry of Finance, GOI through Indian Scheduled Commercial banks

Bank credit given to the beneficiaries (weaker sections) under the above Schemes comes under Priority Sector lending

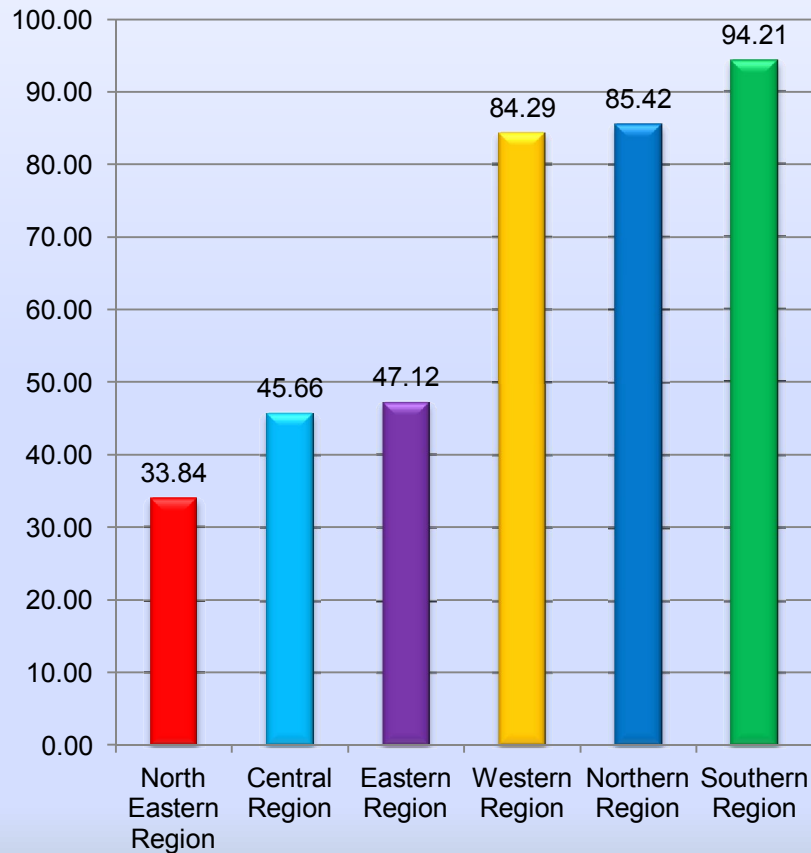


Issues & Challenges – Credit Deposit Ratio

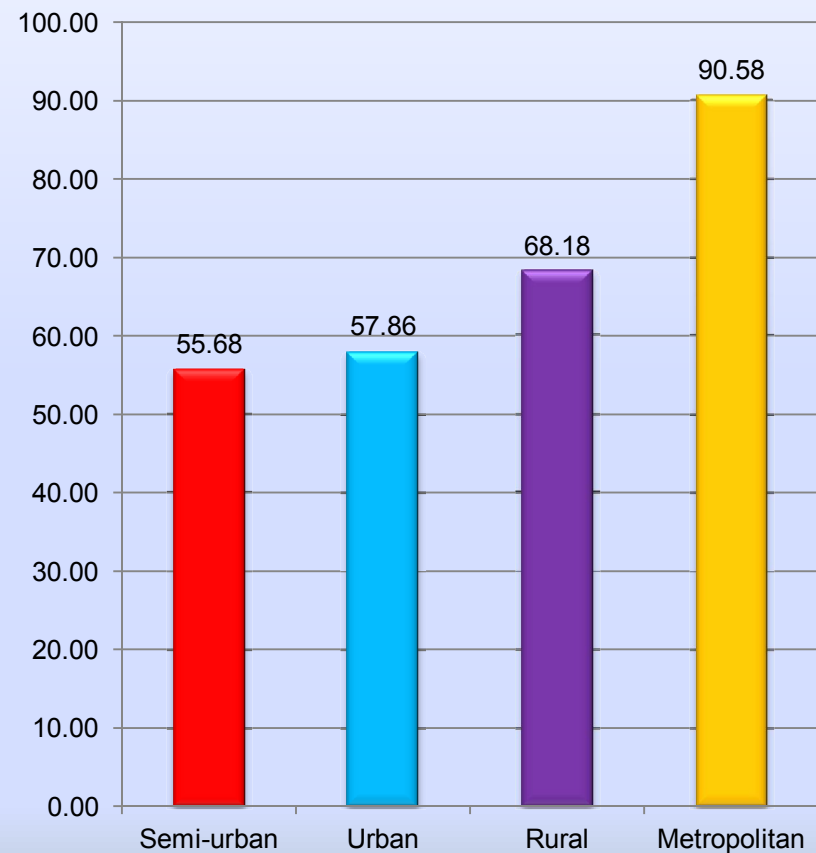
- ▶ CD Ratio is the ratio of outstanding credit to outstanding deposit at a particular point of time.
- ▶ It is a function of credit absorption capacity which is dependent on the development level of the States in the form of availability of necessary infrastructure facilities required for development of industries, agriculture & service sector etc.
- ▶ This is a regular item of agenda in SLBC & DCC meetings and these fora identify measures to enhance CD ratio and to increase credit absorption capacities in the region.
- ▶ In 1980, RBI advised Public Sector Banks to achieve a CD Ratio (CDR) of 60 in respect of their rural and semi urban branches, separately, on an all India basis
- ▶ In 2005, banks are advised to set up Special Sub-Committee (SSC) of District Consultative Committee (DCC) in districts with CDR < 40 in order to monitor and draw up Monitorable Action Plans (MAPs) for improving CDR on a self set graduated basis

CD Ratio Analysis – Region-Area wise

CD Ratio -Region wise -June 2013

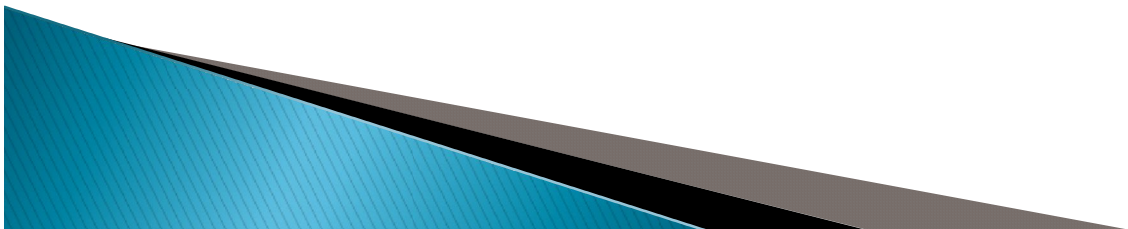


CD Ratio - Area wise -June 2013



Issues & Challenges – Financial Inclusion

Financial Inclusion is the process of **ensuring access** to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an **affordable cost** in a *fair and transparent manner* by mainstream institutional players



Institutional Framework for achieving Financial Inclusion

Government of India & Reserve Bank of India



Financial Stability Development Council (FSDC)



Separate Technical Group on Financial Inclusion and Financial Literacy



Financial inclusion Advisory Committee of RBI



115937 bank branches (Public sector-80335, Private Sector-17650, Regional Rural Banks-17952) [as on December 31, 2013]



35 State Level Bankers Committees



671 District Consultative Committees



Partnership with other stakeholders (NGOs, Voluntary organisations)



Financial Inclusion – Approach

Reserve Bank is furthering financial inclusion in a mission mode through a combination of strategies ranging from

- ▶ Technology based
- ▶ Branchless modes of delivery of banking services
- ▶ Focus from growth to inclusive growth
- ▶ Poor are bankable
- ▶ Importance given to sustainability, viability & scalability
- ▶ Financial Inclusion comprehensively defined- Financial Inclusion Plans and Roadmap
- ▶ Adopted a **BANK - led** model

FI initiatives of RBI to encourage spread of banking in rural areas

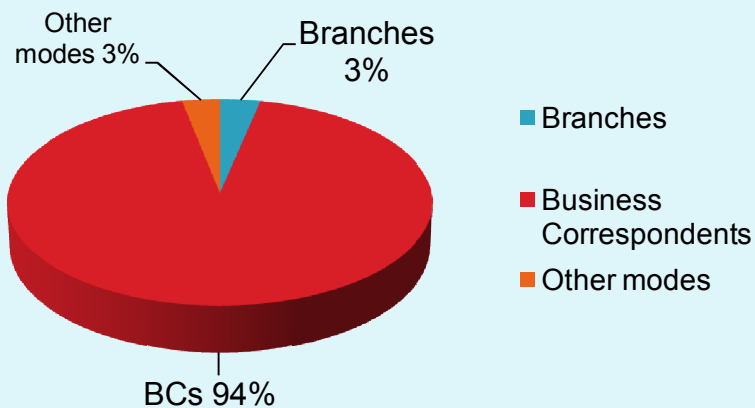
- ▶ **Business Correspondents (BCs):** Permitted banks to engage Business Correspondents
- ▶ **Simplified branch authorisation:** Domestic SCBs permitted to freely open branches in Tier 2 to Tier 6 centres (with population of less than 1,00,000) under general permission, subject to reporting
- ▶ **Opening of branches in unbanked rural centres:** 25 % of the total number of branches to be opened during a year, in unbanked rural centres
- ▶ **Special dispensation scheme for opening of bank branches in NER**
Under the Special dispensation scheme of RBI for NE Region to open bank branches in unbanked and under banked centres, a total of 34 branches have been opened at identified centres in five NE States of Meghalaya (4), Tripura (5), Arunachal Pradesh (8), Manipur (11) and Nagaland (6). RBI is reimbursing the one time capital cost and recurring cost for five years in respect of branches opened under above Scheme upto June 2012

FI Initiatives of RBI Contd..

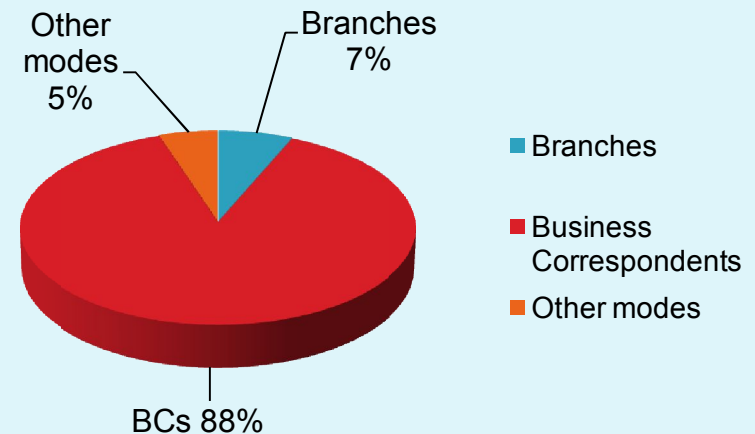
- ▶ **Phase wise approach** to provide door step bkg. facilities in all the unbanked villages in the country,
- ▶ **Phase-I:** A roadmap for covering all unbanked villages with more than 2000 population was prepared by various banks through SLBCs for coverage through various modes either through Branch or BC or Other modes. All the 74414 such villages already covered comprising 2493 branches, 69589 BC and 2332 other modes.
- ▶ **Phase-II:** Roadmap for covering all unbanked villages with less than 2000 population has been prepared by various banks through SLBCs. SLBCs reportedly identified and allotted about 490000 such unbanked villages to various banks for provision of banking services in next 3 years.
- ▶ **December 31, 2013 Progress: 137865** villages covered comprising 8954 branches, 121845 BCs and 7066 other modes.

Roadmap Progress > 2000 and <2000 population villages

Roadmap > 2000 population villages - Final Progress



Roadmap < 2000 population villages - Progress upto Dec. 2013



Financial Inclusion Plans (FIPs)

- ▶ Board approved 3 Year FIPs- April 2010 to March 2013, Next 3 years FIPs prepared for April 2013-2016. To be reviewed in SLBCs
- ▶ FIPs of Regional Rural Banks- Prepared after Core Banking Solution (CBS) migration
- ▶ Self-set targets – 46 Parameters-FIPs to be integrated with Business plan of the banks
- ▶ Basic Accounts, Electronic Benefit Transfer, Kisan Credit Card, General Credit Card accounts to be opened including through Business Correspondent model
- ▶ Specific products to be designed to cater to the financially excluded segments
- ▶ Close Monitoring by Reserve Bank of India- Monthly Reporting- Annual Comprehensive Review
- ▶ FIPs Disaggregated - Regional Offices of RBI to review state level FIPs

FIP Achievements upto December 2013

- ▶ Banking connectivity extended to nearly 328679 villages from 67,694 villages in March 2010
- ▶ Total no of BSBDAs have gone up to 229 million of which 108 million are Information Communication Technology (ICT) based accounts
- ▶ Credit to **farm sector households** have touched 39 million households while credit to **non farm sector households** have touched more than 6 million households
- ▶ About 238 million transactions carried out in ICT based accounts through BCs during the nine month period ended December 2013 as against 250 million transactions recorded during the year 2012-2013

Financial Literacy initiatives of RBI - Use of various channels

Initiatives

- ▶ Prepared Financial Literacy material in the form of simple Question and Answers on banking
- ▶ The financial literacy material has been distributed to all banks for use during financial literacy sessions conducted by them

Channels

- ▶ Holding Newsitions, Quiz Competitions
- ▶ Town Hall Events - Interaction of RBI Top Management with public
- ▶ Outreach visits to villages by RBI Top Management
- ▶ Visits to Schools and Colleges by Bank Officials
- ▶ Visits by School and College children to RBI
- ▶ Inclusion of Financial Literacy in School Curriculum
- ▶ Distributing Books and Pamphlets on financial literacy

Summing up

Expectations from Government

- ▶ Pro active role at all levels
- ▶ Ensuring conducive credit culture
- ▶ Provision of infrastructure especially rural connectivity
- ▶ Capacity building
- ▶ Publicity and awareness
- ▶ Better coordination between Government and banks
- ▶ Whole hearted participation of Government officials in various Lead Bank Scheme fora

Thank You

Valuable inputs provided by Shri K. Rajendra Prasad, AGM
are gratefully acknowledged