Inclusion, Growth and Governance- Issues and Way Forward[1]

Lord Meghnad Desai, Professor Emeritus, London School of Economics; Shri Rana Kapoor, Managing Director & CEO, Yes Bank and President, ASSOCHAM; Shri Sameer Kochhar, Chairman, SKOCH Group; members of the print and electronic media; ladies and gentlemen! It is a pleasure and privilege for me to be present here today at the inaugural session of this SKOCH Summit which features the theme of 'Inclusion, Growth and Governance'. The theme of the conference is particularly relevant at this juncture in our economy when the economic growth has considerably slowed down. Across the globe, especially in the wake of the financial crisis, there has been a growing appreciation of the fact that sustainable growth and financial stability can only be achieved through greater financial inclusion. The policymakers in India have been cognizant of the need for equitable development and have pursued polices which aimed at greater financial inclusion over the years. Generating sustainable economic growth through increased financial inclusion has, of late, become the central mantra of the regulators and policy makers, not only in India, but across the globe. But, how far have we succeeded in our efforts? Undoubtedly, over the last five-six years, ever since RBI has encouraged the banks to adopt a structured approach for financial inclusion, the banking sector has done a good job. One can see the statistics related to number of basic bank accounts opened, number of Kisan credit cards (KCCs) and General credit cards(GCCs) issued, etc. These numbers are by no means small. But, if you ask me whether we are satisfied with the progress, the answer would be an unqualified 'NO.' We are not happy with the quality of Financial Inclusion that we have achieved over these years. When we say quality, we mean that although a number of accounts have been opened, many people have been issued KCCs and GCCs; the number of transactions in these accounts continues to be minuscule. What really pains me is that contrary to the potential that exists, the progress is quite unsatisfactory. The larger question, therefore, is what is holding us back? Why are the banks not able to bring in meaningful financial inclusion? To my mind, a fair share of the collective failure of the stakeholders can be attributed to poor governance of our Financial

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Inclusion framework and lack of accountability at the highest policy level i.e. Board and at the level of senior management.

2. I am, therefore, happy that SKOCH has chosen this theme, which is aimed at highlighting this linkage between inclusion, growth and governance. As I mentioned a little while back, we set in motion a structured framework for promoting financial inclusion some 5-6 years ago and hence, this is an ideal time to take stock of our initiatives, reflect on our achievements and initiate course correction, wherever necessary. In my address today, I intend to focus on the progress made in our financial inclusion efforts, the attendant issues and challenges and the improvements needed in the governance framework of the financial inclusion initiatives in the banks in order to make it truly meaningful.

3. There is an inalienable link between growth and governance and this has been established through several empirical studies. The concept of good governance emerged at the end of the 1980s, first at the World Bank which was further developed upon by international development aid agencies and organizations such as UNDP and OECD. According to the World Bank, good governance entails sound public sector management (efficiency, effectiveness and economy), accountability, exchange and free flow of information (transparency), and a legal framework for development (justice, respect for human rights and liberties)(World Bank, 1994). UNDP states 9 major characteristics of good governance: Participation, Rule of law, Transparency, Responsiveness, Consensus orientation, Equity, Effectiveness and Efficiency, Accountability and Strategic Vision. Good governance can spur the process of economic growth and lead to gains which are tangible, equitable and inclusive.

4. Similarly, there is an equally compelling link between growth and financial inclusion especially in the emerging market economies. This is on account of the pivotal role that the banks play as financial intermediaries in these economies, both at a macro and a micro level. At a macro level, banks contribute to growth through mobilization of savings and allocation of credit towards the most optimal deployment avenues available in the economy; while at a micro level, banks provide households and businesses an opportunity to realize their economic goals and improve their financial position by providing a range of financial services, thereby contributing to overall growth. However, the ability of banks to play this vital role is constrained by their lack of reach across a large segment of the population on account of financial

exclusion. Financial inclusion and the consequent increased penetration of banks to the hitherto unbanked segments, thus, have strong linkages to economic growth.

Growth through Financial Inclusion: Historical Perspective

5. The criticality of the financial sector in ensuring equitable and sustainable development was realized quite early in the post-independence period and there was a focus on channeling credit to the neglected sectors of the economy and weaker sections of the population. Increasing access to credit for the poor has remained a core concern for India's planning architecture, in its fight against poverty. Having recognized the social and economic imperatives of broader financial inclusion early, the policy makers set about finding innovative ways to empower the poor. Starting with the nationalization of banks (1969/1980), outlining priority sector lending requirements for banks, introduction of the Lead Bank Scheme, establishment of Regional Rural Banks (RRBs-1975-76), Service Area Approach (1989) and Self-Help Group-Bank Linkage Programme (1989-90), all these initiatives were taken with an underlying objective of taking banking services to the masses and making them participate in the developmental process of the economy. The financial sector reforms, set in motion in the 1990s, saw the focus shift to strengthening financial institutions and bringing in new players to infuse competitiveness, with the ultimate objective of achieving enhanced financial access, greater efficiency and improved consumer satisfaction. These initiatives, undoubtedly, had a positive impact and resulted in some improvement in access of banking services to remote parts of the country. However, since these initiatives lacked a structured and coordinated approach, the developments were rather skewed with few regions witnessing better financial access and inclusion than others. The skewness in financial development across regions could mainly be attributed to poor polices as well as inadequacy of Governance framework. The lack of formal structure and effective co-ordination in the financial inclusion initiatives, thus, contributed to regional disparities in growth and economic prosperity.

Good Governance: An essential pre-requisite

6. The vision of inclusive growth and governance dictates the need to broaden and deepen access to development finance for all. Only well functioning and efficiently governed financial institutions can provide financial services to meet the growing needs of the economy. Despite early recognition of the need for universal financial

inclusion, a large cross-section of the population remained financially excluded. As I mentioned before, though various measures initiated by the regulator/Government in the post-independent period resulted in impressive gains in rural outreach and volume of credit, the structure suffered from inherently weak governance. The achievements were ‘quantitatively impressive, but qualitatively weak’. Due to the target driven approach to social banking, the initiatives were not part of the business strategy of banks. The effort on the part of the banks was always aimed at somehow meeting the lending targets, mostly at subsidized rates of interest, or with subsidy from the Government under various government directed schemes.

7. Overtime and especially, in the wake of the adoption of the RBI encouraged structured Financial Inclusion Framework adopted by banks over the last few years, there has been substantive development in the architecture and thinking on financial inclusion. There has been a growing realization that there is no “one-size-fits-all” financial inclusion strategy which can be cloned over the length and breadth of our country, although few core conditions are essential to maximize the benefits derived from such a strategy. Effective Governance is the most predominant of these conditions and is, in fact, a *sine qua non* for achieving financial inclusion.

8. Effective financial inclusion cannot be achieved until the entire structure of the financial inclusion programme is supported by good governance. Good governance in our financial inclusion programme is supposed to be achieved by having a planned and structurally integrated framework, supported by a policy vision. As a first step towards creating this governance structure, effort has been made to precisely define financial inclusion and all ingredients associated with it. In the subsequent paragraphs we shall be presenting the entire governance structure of our financial inclusion programme, the progress achieved so far and issues and challenges that need to be tackled to make it a success.

(A) Definition of Financial Inclusion

9. 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 regulated, mainstream institutional players.

Approach to Financial Inclusion

(a) A Bank led Model

10. We have adopted a bank- led model for financial inclusion, which seeks to leverage on technology. Our belief has been that in view of the geographic expanse of our country, the success of Financial Inclusion initiatives would depend on the solution being ICT- enabled, with the market participants developing new delivery models to best suit their individual requirements.

11. Our experience has shown that the goal of financial inclusion can be best served through mainstream banking institutions as only they have the ability to offer the entire suite of products necessary for effective financial inclusion. There has been criticism of our approach in not recognizing mono product offerings from service providers like telcos (remittance) and MFIs/SHGs (credit) as part of the mainstream financial inclusion process. As I said before, unless the players can offer the entire suite of products, it cannot be considered financial inclusion as it will only cater to a small chunk of the financial needs of the population and would, hence, not be complete financial inclusion. In fact, the mainstream financial players i.e. banks have the ability to cross-subsidize across various product/services and offer the FI products in most efficient and cost-effective manner. This does not, however, mean that we have entirely excluded other players. We have suggested that other entities, such as mobile service providers, can synergistically collaborate with banks in offering services. Our belief is that such partnerships with banks could be a game changer as far as financial inclusion is concerned.

(b) An Integrated approach – Financial Inclusion & Financial Literacy

12. We have adopted a structured, planned and integrated approach towards Financial Inclusion which is focusing on improving access to financial services and also encouraging demand for financial services through Financial Literacy initiatives. We recognize that the success of the financial inclusion efforts depend not just on the extent to which the reach of the formal financial sector is improved, but also on whether the target population is aware about the benefits of moving on to the formal financial system and is inclined to make this transition.

(c)Building a Robust Institutional mechanism for FI

13. Let me now dwell upon the institutional mechanism that has been built for ensuring success of financial inclusion across the country.

i. The Financial Stability and Development Council (FSDC) headed by the Finance Minister is at the apex. Under the aegis of the FSDC, we have a Sub-Group of FSDC headed by the Governor, RBI and within that is a Technical Group, headed by a Deputy Governor, RBI exclusively mandated to focus on financial inclusion and financial literacy. The membership of these groups comprises of representatives of all financial sector regulators, which makes the structure of the group very strong.
ii. In order to gauge the performance of banks and to continuously review the various models adopted under Financial Inclusion, RBI has constituted a Financial Inclusion Advisory Committee (FIAC), headed by a Deputy Governor from RBI, which has members comprising of few Directors from the Central Board of RBI as also experts drawn from various NGOs/other civil society representatives, etc. The collective expertise and experience of these members is expected to be leveraged towards developing viable and sustainable banking services delivery models for meeting the objective of total financial inclusion.
iii. Further, we also leverage upon the infrastructure created at the state level, wherein we have the State Level Bankers Committee (SLBC) at the Apex which is ably supported by the Lead District Managers (LDMs) at the District level.
iv. In order to ensure that the initiatives on the supply side are ably supported by initiatives on the demand side, we have around 896 financial literacy centres set up by banks. Banks have been advised to educate, train and counsel people in the rural areas regarding the benefits of getting linked to the mainstream financial system and also to take all out efforts to ensure that such people get converted into long term customers of the banks.

(d) Bouquet of Financial products

14. In the absence of banks, a large number of informal financial market intermediaries mushroomed, particularly in the rural areas, which were acting as proxy to the banks. Many of these entities were in the business of extending only credit products, that too at exorbitant rates of interest, mostly to the illiterate section of the population. This led to huge indebtedness amongst the poor people and their deteriorating financial health. Under our financial inclusion framework, we expect the

banks to ensure that all the financial needs of the customers are met by offering them, at a minimum, the following four basic products:

- A savings cum overdraft account
- A pure savings account, ideally a recurring or variable recurring deposit
- A remittance product to facilitate EBT and other remittances, and
- Entrepreneurial credit products like a GCC or a KCC

15. The objective is to ensure that customers who are linked to the banking system are provided with all the basic financial products that are required to enhance their income generation capacity, thereby, helping them to come out of poverty.

(e) Leveraging on Technology

16. We realize that the task of Financial Inclusion is gigantic and it would not be possible without leveraging technology. Recognizing that banking services through the traditional brick and mortar model is expensive for banks, we have encouraged them to adopt and leverage technology to attain greater reach and penetration while keeping the cost of providing financial services to the minimum. While we remain technology neutral, we require banks to seamlessly integrate whatever technology they choose, with their CBS architecture. This approach is expected to enable banks to minimize the cost of providing financial services in far flung areas of the country, which is the key for success of our financial inclusion initiatives.

(f) Combination of Branch and BC Outlets

17. We have been advocating a combination of Brick and Mortar structure i.e. Branch with Click and Mouse technology (BC outlets) for extending financial inclusion, especially in geographically dispersed areas. However, for the BC model to succeed there is need for strong support from the base branch. Banks have, therefore, been advised to open small intermediary brick and mortar structures between the base branch and the BC outlets. The whole purpose of the exercise is to create an entire ecosystem for ensuring efficient delivery of services, efficiency in cash management, redress of customer grievances and closer supervision of BC operations for better credit administration.

(B) Regulatory Initiatives

(i) Enhancing Reach

(a) Agent Banking Model – Use of Business Correspondents

18. In January 2006, the Reserve Bank permitted banks to utilise the services of intermediaries such as business facilitators and business correspondents in

providing banking services. The BC model allows banks to do 'cash in - cash out' transactions at a location closer to the rural population, with the help of technology. This innovative model aimed at addressing the last mile problem.

(b)Branch Expansion

19. RBI has considerably relaxed the branch opening norms for banks. Branch authorisation has been relaxed to the extent that banks do not require prior permission to open branches in centres with population less than 1 lakh, they have only to report having done so.

20. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres. To further encourage the banks towards pursuing this mandate, banks have been advised to consider frontloading (prioritizing) the opening of branches in unbanked rural centres over a three year cycle co-terminus with their Financial Inclusion Plans. This is expected to facilitate quicker branch expansion in unbanked rural centres.

21. Along with increasing brick and mortar presence through branch expansion, we have also encouraged banks to adopt modes such as ICT-BC outlets, Kiosks, off-site Rural ATMs, mobile vans, etc.

(ii)Enhancing Access

(a) Relaxed KYC norms

22. One of the major constraints faced by the people in getting linked to the formal banking system was the strict Know Your Customer (KYC) norms. To facilitate easy opening of accounts especially for small customers, the KYC guidelines have been simplified so that these accounts can be opened by means of self-certification in the presence of bank officials. Further, in order to leverage upon the initiative of UIDAI, RBI has recently allowed 'Aadhaar', the unique identification number to be used as one of the eligible documents for meeting the KYC requirement for opening a bank account. Very recently, RBI has also allowed banks to use the E-Aadhaar facility provided by UIDAI for KYC purposes.

(b) Basic Savings Bank Deposit Accounts (BSBDAs)

23. Banks have been advised to make available Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with zero minimum balance and facility of ATM card/ Debit card. Existing impediments of minimum balance maintenance, bank charges, etc. are being addressed through the same. With this it has become a right

for every eligible Indian citizen to open basic savings account with banks. Further, banks have also been advised to provide in-built overdrafts in such basic savings accounts so as to meet the emergency credit needs of the customer and prevent them from having to approach money lenders in distress situation. The entrepreneurial credit has also been simplified in the form of KCC for farm sector household and GCC for non-farm sector households.

(c)Leveraging the banking network for extending social benefits - Direct Benefit Transfers

24. The recent introduction of direct benefit transfer, based on validation of the identity of the beneficiary through Aadhaar, will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries, thereby preventing leakages and wastages in the system. The government, in future, has plans of routing all social security payments through the banking network using the Aadhaar based platform as a unique financial address of beneficiaries. In order to ensure smooth roll out of the Government's Direct Benefit Transfer (DBT) initiative, banks have been advised to:

- Open accounts of all eligible individuals in camp mode with the support of local Government authorities.
- Seed the existing and new accounts with Aadhaar numbers.
- Put in place an effective mechanism to monitor and review the progress in implementation of DBT (G2P – Government to Personal Payments).

(C) Financial Inclusion: A Viable Business Proposition

Financial Inclusion Plan of banks

25. Contrary to common perception, financial inclusion can, with better governance, be a viable business proposition because of the huge untapped market, which can be brought into the fold of banking services. Financial Inclusion, *prima facie,* needs to be viewed as "money at the bottom of the pyramid". With the banks being free to charge reasonable interest rates on the advances as also to internally fix charges for various service offerings, what banks actually need is to develop an appropriate business and delivery model in line with their business strategy and comparative advantage and align the same to their business plan. This will create an environment of competitiveness amongst banks and in the process will benefit the unbanked population.

26. As I have mentioned above, we have encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels. Towards this end, the banks have been advised to prepare Financial Inclusion Plans (FIPs) containing self-determined targets on various parameters to be achieved during the FIP period, with the approval from their respective Boards,. The first phase of FIPs was implemented over the period 2010-2013 and the second phase of FIPs has been finalized and is under implementation. The Reserve Bank has used the FIPs to gauge the performance of banks under their FI initiatives. For this purpose, a structured and comprehensive monitoring mechanism has been put in place for evaluating banks' performance vis-à-vis their planned targets. To ensure engagement of the Top Management/senior functionaries of the Bank in the FI process, a system of annual review meetings between CMDs/CEOs of banks and Deputy Governor of RBI has also been institutionalized.

Performance of banks under the Financial Inclusion Plan

27. The achievements of the banking system under the FIP can be accessed from the following monitoring data (for the period up to December 2013):-

i. Banking connectivity has been extended to nearly 328679 villages from 67,694 villages in March 2010.
ii. The total no of BSBDAs have gone up to 229 million of which 108 million are ICT based accounts.
iii. Credit to **farm sector households** have touched 39 million households while credit to **non farm sector households** have touched more than 6 million households
iv. About 238 million transactions have already been 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.

28. After completion of the first FIP period, it was realized that although a large banking network had been created along with the opening of large number of bank accounts, simply creating the banking infrastructure and opening banking accounts would not fulfill the objectives of achieving meaningful financial inclusion. As an improved governance measure, with an underlying objective of ensuring involvement of all stakeholders in the Financial Inclusion efforts and in order to ensure uniformity in the reporting structure under the Financial Inclusion Plan, banks were advised to ensure that their FIPs are disaggregated and that they percolate down up to the

branch level. The focus under the new plan is to ensure that the newly created banking network is utilized not just for offering deposit and remittance products, but also for extending other products viz. credit, which can help make the business more viable for banks. This would also ensure that not only the volume of transactions in the newly opened accounts increase but the people also reap the benefits of getting linked to the formal financial system.

Facilitating a balanced approach - Roadmap for providing Banking Services in unbanked Villages

29. With the banks slowly realizing the potential business opportunity in financial inclusion and gearing up to penetrate the rural areas, , RBI came up with the idea of notional allocation of villages amongst banks, in order to ensure that the efforts of banks are not duplicated. This was also with the objective of ensuring presence of at least one banking outlet in all the unbanked villages of the country.

30. In this direction, a phase-wise approach was adopted wherein SLBCs/DCCs were advised to identify unbanked villages with population more than 2000 and notionally allocate them amongst banks operating in the region. While the first phase saw coverage of almost 74,000 unbanked villages (having a population above 2000), in the second phase, the SLBCs/DCCs have identified approximately 4,90,000 remaining unbanked villages. These villages have also been notionally allotted to banks and the target is to provide each of these villages with a banking outlet by 2016.

Financial Literacy and Financial Education

31. As I had mentioned earlier, we have adopted an integrated approach of promoting supply of financial services through improved financial access and ensuring greater demand for financial services through financial literacy initiatives. In the Indian context, the problem of financial illiteracy is more acute with awareness levels of the rural population regarding the benefits of linking with mainstream financial institutions, being extremely poor.

32. Therefore, we have ensured that our supply side initiatives are ably supported by initiatives on the demand side. Our idea is to include financial education in the school curriculum so as to educate children about the benefits of banks and banking services. In this direction, the Technical Group of the FSDC has already come out with a National Strategy on Financial Education, which has been approved by the FSDC.

33. RBI has advised banks to set up Financial Literacy Centres (FLCs) across the country. Banks have so far set up around 896 FLCs as of December 2013. These FLCs have reportedly educated more than 10 million people through various literacy programs. Banks have been further advised to scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps, at least once a month, both by the FLCs and also by the rural branches.

34. In order to standardize the literacy material, RBI has prepared a comprehensive Financial Literacy Guide containing Guidance Note for Trainers, Operational Guidelines for conduct of Financial Literacy Camps, Standard Financial Literacy Material, Financial Diary for use of rural customers and a set of 16 posters. Banks have been advised to use the material as a standard curriculum to impart basic conceptual understanding of financial products and services.

(D) Issues & Challenges

35. While several initiatives are being taken for ensuring widespread financial access, certain factors continue to impede progress of financial inclusion. Let me come to these issues and challenges one by one.

Governance Deficit

36. The need for effective governance implies that the underpinning of all processes, through norms that define our actions, allocate power and prescribe a matrix against which we can calibrate our performance. Lack of effective governance has been one of the major reasons for slow progress in implementing our Financial Inclusion initiatives.

Ownership and Accountability

37. Why Financial Inclusion is not happening even after the infrastructure being in place? It is clearly due to lack of accountability and a problem of attitude. Many of the banks still have not developed an appropriate, cost-effective delivery model for Financial Inclusion and therefore, they are still not thoroughly convinced about FI being a profitable business opportunity. Resultantly, they still perceive this to be a social/ regulatory obligation and consequently their efforts are half-hearted. The inadequacy of MIS creates further complications. The sunken cost for setting up the intermediate brick and mortar structures and developing the BC network has to be seen as future investment. Obviously, it cannot be revenue accretive from day one. Still, if one were to logically work out the mathematics of serving the customers in a

brick and mortar branch and through a BC, keeping the fixed and variable cost in mind, certainly the BC model would work out much cheaper in the intermediate term. Therefore, for the FI model to work, the banks need to take ownership of the model and ensure continuous and full support to the Business Correspondents at the ground level. There is need to punish the non-performers in the system and the governance system has to be improved for ensuring buy-in from the Top Management and commitment and accountability from the rank and file of the bank.

Delivery Model

38. One of the major challenges is that banks are yet to develop a sustainable and scalable business delivery model to guide its Financial Inclusion initiatives. While several alternate models have been tried out, the BC-ICT model has gained prominence amongst banks. However, many banks are yet to settle upon on a BC model which is scalable and will help them achieve their targets under financial inclusion.

Viability Issues

39. While access to financial services has improved, the usage of the financial infrastructure continues to be tardy. While more than 3 lakh banking outlets are available across the country, the number of transactions in many accounts opened by the BCs, remains unimpressive. This not only restricts the potential benefits that could accrue from increased financial access but also reduces the viability of Financial Inclusion activities for banks and BCs. The reduced viability, in turn, impacts the scalability of the model and, in the process, hampers the Financial Inclusion efforts.

Hindrances constraining BC operations

40. We have identified certain deficiencies which are hampering the scaling up of the BC model. These include restrictive Cash Management Systems followed by banks wherein BCs are required to fully prefund their business operations in terms of cash limits and security obtained from BCs; Non-insurance of cash held in transit by BCs; Low or untimely remuneration paid to BCs/CSPs; allowing transactions only in limited products through the BC channel. These have restricted the involvement and effectiveness of the BCs as a vital peg in the financial inclusion jigsaw.

41. Our review has shown that different banks are adopting different practices. We feel that the time has come for banks to come together and identify the best practices for the scaling up of the BC model. We have asked banks to work under

the aegis of IBA and come up with “Best Self Regulatory Practices for BC Operations" based on industry best practices.RBI is also considering issuing instructions to banks for standardizing operations under the BC model.

Technology issues

42. While banks have innovated on technology, the same has not resulted in significant reduction in the cost of providing financial services. Beneficiaries/ stakeholders often complain of constraints in digital/ physical connectivity. This, coupled with delays in issuance of smart cards, reliability issues in hardware infrastructure such as hand held devices, etc. have impacted the quick roll out of financial services across the country. Over dependence on vendors and the resultant problems is a serious governance deficit which needs to be overcome for effective rollout of our Financial Inclusion initiatives.

Collaboration

43. Finally, the collective will power of the society and of all the concerned stakeholders is lacking and this adversely impacts the effective implementation of our Financial Inclusion initiatives.

(E) Regulatory Governance to Self Governance

44. The primary role of the regulator is to issue broad guidelines to ensure standardized practices across the banks at the national level. In line with these broad guidelines, it is the responsibility of the bank management to develop their own internal processes, structures and governance framework based on their business model and overall business strategy. The internal governance should ensure that a robust system is developed to keep a check on adherence to rules and regulations.

45. Presently, there is a top-down approach to implementation of regulation and regulatory controls at all levels. Financial Inclusion delivery models also operate in similar ways where top-down approach is followed by banks while deciding the operational aspects of Business Correspondents and other delivery channels. It is this approach which needs a fundamental change. We need to move from forced implementation to willing participation to facilitate achievement of Financial Inclusion goals. Effective governance at all levels within banks would ensure that regulations are seen as an essential element of business and are not adhered to merely for compliance sake. Banks’ policies should evolve from best practices and ground level realities. The regulator should not be required to micro manage the principles on which Financial Inclusion model operates. This can be achieved in following ways:

i. Alignment of business plan with all micro policies
ii. Self regulation
iii. Bottom up and participatory approach
iv. Robust internal checks and control
v. Knowledge sharing at industry level

46. In general, Governance is administered in three ways viz. through market forces, through governing body or through network. In an organizational set up, it's about the rules and regulations that guide all activities. Regulatory governance reflects the emergence of de-centered and mutually adaptive policy regimes which rest on regulation rather than service provision. From the perspective of the Governance framework guiding the financial inclusion process, banks need to devise their own strategies to ensure that an effective and conducive governance regime is in place to ensure attainment of the FI goals.

Conclusion

47. Good governance is at the core of improving the delivery of public services. Good governance provides a mechanism for linking inclusion, decision making, and accountability. Problems in infrastructure, critical for building an inclusive India, can often be traced back to lack of ownership and poor governance. Many of the initiatives launched over the years for achieving the objective of rapid growth coupled with poverty alleviation and inclusiveness have failed to achieve their goals because of lack of ownership, ineffective governance and insufficient accountability at various levels. Without effective implementation, even substantial government expenditure results in limited success.

48. The success of banks cannot be measured simply in terms of profit their banking operations generate. The banking services are equally about addressing the financial needs of various stakeholders. Not only is it about making the system more inclusive, it is also about protecting the financial consumer, through improved awareness and better grievance redressal mechanisms. The mantra of good corporate governance, therefore, does not just encompass ethics and business practices followed by the bank or its personnel; it has to go beyond compliance with regulatory directives. It must consider fair and acceptable behavior, among others, to those who are more vulnerable, even if it is at some cost to their bottom lines.

49. For our Financial Inclusion initiatives to succeed, it is important for banks to craft new policies on governance and compliance, wherein good governance should be

the primary responsibility of the bank's board of directors and its senior management. While we respect the mandate of the leadership of each bank to make strategic decisions as it is these choices that differentiate one bank from another as a business proposition; however, the governance perspective that we seek must be fundamentally entrenched as a core competency across all banks.

50. There is a causal linkage between growth and good Governance. The deficit of governance can impair and impede development. I am often asked why the BC model is not scaling up as it should to meet the humungous credit needs of our population. The answer is simple. The model lacks effective governance at every level. There is inadequate supervision of the banks' frontline staff. The vision of the Board room is not transmitted to the frontline manager. Governance failure is also reflected in the vendor dependence in the usage of technology. We have to chart a clear path and change this dependence into efficient and effective systems which are scalable and sustainable. So, the overarching theme here is a persistent and immediate need to address the governance deficit to ensure financial inclusion and concomitant growth.

51. In sum, good governance and accountability at different levels of bank management is the key for the success of the financial inclusion programme. Maximum attention needs to be paid to firmly showcase the virtues of financial inclusion to the banks' boards and to ensure its acceptance at the highest level. It is also important at the same time to make the Boards accountable to deliver the results on the mandate of financial inclusion. The acceptability and accountability at lower level of management will automatically follow. We also need to improve governance mechanism for delivery of banking services through BC network by ensuring better co-ordination and governance amongst all stakeholders, including the technology providers, vendors, etc. Up until now, we have followed a carrot and stick policy to ensure the success of financial inclusion programme with the carrots being used more predominantly. Having created a flexible and friendly regulatory environment for financial inclusion for inclusive banking practices, time has come for us to use the stick more often, albeit judiciously, to make financial inclusion an integral part of banking operation and its acceptability at bank board level. This has to be supported by good governance at every level of the management associated with the delivery of the financial inclusion programme.

52. I once again congratulate the organizers for the topical selection of the theme and hope that delegates at the summit would appreciate the role of governance deficit in impeding financial inclusion and growth in the country and take correctives steps within their respective organizations to ensure that universal financial inclusion can be achieved in a time-bound manner. I would like to close with an extract from Robert Frost's famous poem:-

"The woods are lovely, dark and deep,
but I have promises to keep
and miles to go before I sleep".

Yes, a lot has been achieved in our journey towards universal financial inclusion, but there is a long road still to travel for fulfilling the promises we have made to the people of this country. What can ensure success in this challenging task of delivering meaningful financial inclusion is full commitment of the Board and the senior management of the banks.

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