*Revving up the Growth Engine through Financial Inclusion**

K. C. Chakrabarty

Mr. Montek Singh Ahluwalia, Deputy Chairman, Planning Commission; Mr. U. K. Sinha, Chairman, SEBI; Mr. Sameer Kochhar, Chairman, Skoch Group; Ms. Stuti Kacker, Secretary, Department of Disability Affairs, Ministry of Social Justice and Empowerment; Mr. S. S. Tarapore, Distinguished Fellow, Skoch Development Foundation; Ms. Chitra Ramkrishna, Managing Director and CEO, NSE; Mr. Bhaskar Pramanik, Chairman, Microsoft Corporation (India); delegates to the Summit; 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 the 32nd Skoch Summit on the theme of 'Regaining 8 per cent Growth with Equity'. I find the theme of the conference particularly relevant now as the temporary loss of growth momentum provides us an opportunity to recalibrate our growth strategies to ensure that the benefits of future economic growth are shared by all sections of the society, particularly, the poor and excluded groups. This objective needs to be at the core of any strategy that we adopt to rekindle the growth momentum. Hence, I congratulate Skoch for choosing this particular theme for its Summit.

2. Considering the illustrious and respected bevy of speakers who would be sharing their views on regaining the higher growth trajectory during the day, I would concentrate on highlighting some of the recent initiatives that we have taken to ensure that the objective of equitable growth is achieved through financial inclusion (FI) particularly, inclusion of the poor and marginalised sections of the society. I would also share some of the challenges that currently hinder our FI initiatives.

* Address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the 32nd SKOCH Summit held at Mumbai on June 6, 2013.

Our Approach to Financial Inclusion

3. We have sought to adopt a structured and planned approach towards FI by not just focussing on improving access to financial services but also encouraging demand for financial services through financial literacy initiatives. Some of the defining features of our approach to FI are:

- We have adopted a bank-led model for FI, but have permitted non-bank entities to partner banks in their FI initiatives.
- We have encouraged banks to 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.
- As a philosophy, we have always encouraged banks to pursue FI as a commercial activity and to not view it as social service or charity. The self-sustainability and commercial viability of the FI initiatives are important if banks have to scale up their operations to cover more unbanked areas.
- We have advised banks to adopt innovative business models and delivery channels to expand their FI efforts. There is a need for banks to develop new products and design new delivery models that are customised to the unique needs of the financially excluded population, both in the rural and urban areas.
- The Reserve Bank has sought to play a supportive role in FI by creating a conducive regulatory environment and providing institutional support to banks in their FI efforts. Importantly, we have provided banks the freedom and the space to determine their own strategies for rolling out FI and have encouraged them to identify their own goals and targets through their respective Financial Inclusion Plans.

Institutional Mechanism

4. Our strength lies in the fact that we have created a robust institutional mechanism to support the roll out of banking services across the country. This was essential considering the enormity of the task in terms of the number of excluded people and the geographical size of the country. Our institutional architecture includes:

- The Financial Stability and Development Council (FSDC) chaired by the Union Finance Minister and involving heads of all financial sector regulators, which has financial inclusion and financial literacy as one of its important mandates.
- A technical group on financial inclusion and financial literacy under the FSDC involving not just the financial sector regulators, but also the education boards and curriculum developers.
- A high level Financial Inclusion Advisory Committee (FIAC) set up by the Reserve Bank to focus on providing strategic direction to FI initiatives across various stakeholders.
- A strong institutional mechanism at the level of banks through 35 State level Bankers' Committees, 644 Lead District Managers and more than 100 thousand bank branches.
- More than 700 Financial Literacy Centres and Rural Self Employment Training Institutes (RSETIs) imparting financial literacy to complement the financial inclusion measures.

Recent Financial Inclusion Initiatives

5. Learning from the experience gained from the outcomes of our FI initiatives over the years, the Reserve Bank has taken certain additional steps to provide greater impetus to the process of financial inclusion.

- We have encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs). The first phase of FIPs was implemented over the period 2010-2013. The Reserve Bank has sought to use the FIPs as the basis for FI initiatives at bank level through certain measures:
  - o Banks advised to prepare Board approved FIPs for the period 2013-2016.
  - o RRBs also advised to prepare comprehensive FIPs, consequent to their migration to CBS in 2011.
  - o In order to ensure closer monitoring of FI performance of bank branches, banks have been advised to disaggregate their FIPs up to controlling office and branch level.
  - o Structured, comprehensive monitoring mechanism put in place by the Reserve Bank for evaluating banks' performance against their FIP plans. Annual review meetings are being held with CMDs of banks to ensure top management support and commitment to the FI process.
- In the Annual Policy Statement for 2013-14, banks have been advised to consider frontloading (prioritising) the opening of branches in unbanked rural centres over a three year cycle co-terminus with their FIPs. This is expected to facilitate the branch expansion in unbanked rural centres.
- After successful achievement of the target of ensuring provision of banking services through a banking outlet in every village with population above 2000 by March 2012, SLBCs were advised to prepare a road map for provision of banking services in all unbanked villages with population below 2000 in a time bound manner. Under the road map, SLBCs have identified about 4,85,000 unbanked villages with population less than 2000 and the same have been allotted to banks.

- An integrated approach has been adopted for achieving financial inclusion through financial literacy. Financial Literacy Centres and rural branches of scheduled commercial banks have been advised to conduct outdoor Financial Literacy Camps at least once a month.
- In order to ensure consistency in the messages reaching the target audience of financially excluded people through these financial literacy camps, the Reserve Bank has released a comprehensive Financial Literacy Guide containing guidance note for trainers, operational guidelines for conduct of financial literacy camps and financial literacy material.
- In order to ensure smooth roll out of the Government's Direct Benefit Transfer (DBT) initiative, banks have been advised to:
  - o Open accounts of all eligible individuals in camp mode with the support of local government authorities.
  - o Seed the existing and new accounts with Aadhaar numbers.
  - o Put in place an effective mechanism to monitor and review the progress in implementation of DBT.
- Emphasis is on increasing the proportion of brick and mortar branches *vis-a-vis* BC outlets. The guidelines on opening 25 per cent of all new branches in unbanked rural centres and opening of intermediate brick and mortar structures have been issued for this purpose.
- Greater emphasis is being placed on volume of transactions carried out through the newly opened bank accounts. The monitoring format for progress in FIP has been modified to include detailed coverage of transactions in savings, credit and EBT accounts through BCs. Besides, banks have also been advised to monitor cost incurred on financial inclusion activities.

Challenges to Financial Inclusion

6. While several initiatives are being taken for ensuring widespread financial access, certain factors continue to impede progress. Let me highlight some of the major issues that various stakeholders face in their quest for universal financial inclusion:

- The goal of universal financial access is yet to receive the complete conviction/commitment of the Board/top management of banks. This is often due to a lack of genuine belief that this can be pursued as a profitable business activity. I have always maintained that the expenses incurred on FI initiatives need to be viewed as an investment instead of being considered as expenses, and the same should be weighed against present/future benefits likely to accrue from the same.
- Another major challenge is that banks are yet to develop sustainable and scalable business and delivery models to guide their FI initiatives. While several alternate models have been tried out, the time has come for banks to zero in on the models that they find most suited to their goals and to focus on scaling up the same.
- While access to financial services has improved, the usage of the financial infrastructure continues to be tardy. While more than 2.70 lakh banking outlets are available across the country, the number of transactions in these accounts remains unimpressive. For instance, nearly half of the Basic Savings Bank Deposit accounts are not seeing transactions. This not only restricts the potential benefits that could accrue from increased financial access but also reduces the viability of FI activities for banks and BCs. The reduced viability, in turn, impacts the scalability of the model, thereby hampering FI efforts.
- **Technology issues:** 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. It is, indeed, disheartening to note that India, despite being the software service provider to the world, is unable to develop reliable software solutions and back office services for supporting our own FI activities.

- The process of seeding the bank accounts with Aadhaar numbers is faced with various constraints which could impact the roll out of the Government's DBT initiatives.
- At last, I would say that the collective will power of the society and of all the concerned stakeholders is lacking and, consequently, the mission of complete financial inclusion is yet to become a national ambition.

Conclusion

7. The task of financial inclusion in a country like ours with large population and geographical spread is, indeed, challenging. The data released from the recent census of India indicates that only 58.7% of households in India avail of banking services with the figure being 54.4% for rural areas and 67.8% for urban areas. While there is greater awareness among policy makers and financial sector participants about the importance of prioritising the goal of universal financial access, there is a need to ensure that progress on the ground is in line with these expectations. The opening of bank accounts is only the first stage and the focus now is not just on improving access but also on better use of the financial infrastructure. In this regard, the collaborative approach combining financial inclusion with financial literacy, along with closer monitoring of progress in transactions is expected to boost operations in FI accounts.

8. Considering the enormity of the task, the combined will power of the society is required to ensure success in this challenging objective. All stakeholders, including policy makers, regulators, state and district administration, IT solution providers, software and hardware vendors, civic society, media and public at large have to come together and pool their collective might if we have to ensure that the goal of meaningful financial inclusion and leveraging financial access as a means for economic empowerment of the excluded masses, is successfully achieved.

Thank you.

Annex

Progress in Financial Inclusion

SR	Particulars	Year ended March 2010	Year ended March 2011	Year ended March 2012	Year ended March 2013	Progress April 2010 – March 2013
1	Banking Outlets – Rural Branches	33378	34811	37471	40845	7467
2	Banking Outlets – BCs	34174	80802	141136	221341	187167
3	Banking Outlets – Other Modes	142	595	3146	8424	8282
4	Banking Outlets –TOTAL	67694	116208	181753	270610	202916
5	Urban Locations covered through BCs	447	3771	5891	27124	26677
6	BSBD Accounts (No. in lakh)	734.53	1047.59	1385.04	1833.30	1098.77
7	OD facility availed in BSBD Accounts (No. in lakh)	1.83	6.06	27.05	39.42	37.59
8	KCCs (No. in lakh)	243.07	271.12	302.35	337.87	82.43
9	GCC (No. in lakh)	13.87	16.99	21.08	36.29	22.28
10	BC-ICT Accounts (No. in lakh)	132.65	316.30	573.01	810.38	677.73
11	ICT Accounts-BC-Total Transactions (No. in lakh)	265.15	841.64	1410.93	2546.51	4799.08