*Financial Inclusion: Journey So Far and Road Ahead**

Deepali Pant Joshi

1. Mr. Tamal Bandopadhyay Deputy Managing Director, Mr. Sukumar, Editor Mint, distinguished guests ladies and gentlemen at the very outset let me say that I am extremely happy to be here with you this beautiful evening and thank the Editor Mint for having me here, to share with you the RBI perspectives on the Financial Inclusion. I extend warm congratulations to Mint on celebrating a decade of engagement with these issues which concern us all.

2. Dr. Raghuram Rajan, has powerfully enunciated that there is a need for broad based diversified growth lading to rapid reduction in poverty. The Reserve Bank plans its developmental initiatives over the next few quarters on five pillars, one important pillar is of Financial Inclusion *i.e.,* "Expanding access to finance to small and medium enterprises, the unorganised sector, the poor, and remote and underserved areas of the country through technology, new business practices, and new organisational structures; that is, we need financial inclusion."

3. The expectations of poor people from the financial system are principally ease of access, security and safety of deposits, low transaction costs, convenient operating time, minimum paper work, ability to transact easily effect frequent deposits, avail quick and easy access to credit and other products including remittances suitable to their income streams and consumption patterns. The provision of uncomplicated, small, affordable products can help bring low income families into the formal financial sector. Low-income households in the informal or subsistence economy often have to borrow from friends, family or usurious moneylenders. They have little awareness and practically no access to financial services that could protect their financial resources in exigent circumstances such as illness, property damage or death of the primary breadwinner. Taking into account their seasonal inflow of income from agricultural operations, migration from one place to another seasonal and irregular work availability and income, the existing financial system needs to be designed to suit their requirements and to be more responsive to their needs. The mainstream financial institutions like banks have an important role to play in this effort not as a social obligation but as a pure business proposition. The push for financial Inclusion has come from the financial regulator/Government at the level of macro policy the Banks have to translate this to concrete outcomes at ground level to spur financial deepening.

4. Having said this let me now walk you through financial inclusion journey so far and the way forward. "Financial Inclusion" was formally articulated by Dr. Y. V. Reddy, the then Governor, RBI, in the annual Policy Statement of 2005-06, Governor while recognising the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. The main features of the approach involve 'connecting' people with the banking system and not just credit. Financial exclusion is mainly in two ways one is exclusion from the payments system *i.e.,* not having access to a bank account and the second type of exclusion is from formal credit markets requiring the excluded to approach informal and exploitive markets. Taking a cue from the Rangarajan Committee, which first studied the issue of Financial Inclusion in depth, we have defined Financial Inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections at an affordable cost from mainstream financial institution. As Dr. Chakrabarty, Deputy Governor, RBI explains only the mainstream financial institutions have the capacity

* Speech delivered by Dr. (Smt.) Deepali Pant Joshi, Executive Director, Reserve Bank of India at the Mint Conclave on Financial Inclusion, Mumbai on November 28, 2013.

to provide full services and meet the SCRIPT by extend in the complete breadth of services Savings, Credit, Remittance, Insurance, Pension, Payments transactions. Mainstream institution *i.e.,* banks must fulfill their core function of intermediating and transferring resources from surplus to deficit units but both deficit and surplus units are those with low incomes, consequently the RBI moved swiftly to enforce multiple policy level changes ranging from provision of new products, relaxation of regulatory guidelines and other supportive measures to achieve sustainable and scalable financial inclusion, to ensure that customers who are linked to the banking system is provided with all the basic financial products that are required to enhance their income generation capacity thus helping them to work their own out of poverty.

Milestones of our journey so far

I. Opening of No-Frills accounts: In November 2005, a new concept of basic banking 'no-frills' account with 'nil' or very low minimum balance was introduced to make such accounts accessible to vast sections of the population. In 2012, the nomenclature was changed to Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with zero minimum balance and facility of ATM card/debit card, there is no charge on deposits and up to four withdrawals in a month are allowed. To summarise, every person has the right to open a basic account. Banks have been advised to provide small overdrafts in such accounts to meet their emergency credit requirement in hassle free manner.

II. Engaging Business Correspondents: In January 2006, the Reserve Bank permitted banks to engage Business Facilitators (BFs) and Business Correspondents (BCs) as intermediaries for providing financial and banking services. The BC Model allows banks to provide door step delivery of services especially to do 'cash in - cash out' transactions, thus addressing the 'last mile' problem. The list of eligible individuals/ entities who can be engaged as BCs is being widened from time to time, we have adopted a test and learn approach to this process. In September 2010, the RBI has allowed for profit organisations excluding NBFCs to operate as BCs. Banks can now leverage on the penetrative network of mobile companies. Mobile network companies have joined hands with banks to make available banking services to India's unbanked population. The agents of mobile companies work as Customer Service Providers (CSPs) and provide BC services, thus expanding the outreach of banks.

III. Use of Technology: Recognising that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas, in a viable manner, commercial banks were advised to implement CBS so as to enable them to make effective use of ICT, to provide door step banking services through BC Model wherein the accounts can be operated by even illiterate customers by using biometrics, thus, ensuring the security of transactions and enhancing the confidence in the banking system. RRBs, having proximity to rural area , have the inherent strength to scale financial inclusion, have also been roped in by bringing them to CBS platform. A robust payment system is an essential adjunct of financial inclusion, this is an extremely important area.

IV. Relaxation on KYC norms: One of the major constraints faced by the common people all along in getting linked to the formal banking system were the strict Know Your Customer (KYC) norms prescribed all these years. KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedure. To facilitate easy opening of accounts especially for small customers, KYC guidelines have been simplified to such an extent that small accounts can be opened without any documentation by just giving a self certification in the presence of bank officials. Further, in order to leverage upon the initiative of UIDAI, the RBI has allowed 'Aadhaar', the unique identification number being issued to all citizens of India, to be used as one of the eligible document for meeting the KYC requirement for opening a bank account. Recently in September 2013, the RBI has allowed banks to provide e-KYC services based on Aadhaar, thus paving the way for account opening of all the people.

V. Simplified branch authorisation: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in Tier 3 to Tier 6 centres with population of less than 50,000 under general permission, subject to reporting. In the second quarter review of Monetary policy, branch authorisation has been relaxed to the extent that banks do not require prior permission to open branches even in Tier I centres, subject to reporting.

VI. Opening of branches in unbanked rural centres: To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of the branches in unbanked rural centres. To help facilitate in achieving this mandate, banks have been advised to open small intermediary brick and mortar structures between the base branch and the unbanked villages. The idea is to create an eco-system for ensuring efficient delivery of services, efficiency in cash management, redressal of customer grievances and closer supervision of BC operations. To further encourage the banks in pursuing this mandate, banks have been advised to consider front-loading (prioritising) the opening of branches in unbanked rural centres over a three year cycle co-terminus with their FIPs. This is expected to facilitate quicker branch expansion in unbanked rural centres.

VII. Roadmap for providing banking services in unbanked villages with population more than 2000: With financial inclusion gaining increasing recognition as a business opportunity and with all banks geared to increase presence, we adopted a phase-wise approach to provide banking services in all unbanked villages in the country. On completion of the first phase where nearly 74,000 villages with population more than 2,000 were provided with a banking outlet, we are now in the second phase where the remaining unbanked villages, numbering close to 4,90,000, are identified in villages less than 2,000 population and allocated to banks, for opening of banking outlets by March 2016.

VIII. Direct Benefit Transfer: The introduction of direct benefit transfer validating identity through Aadhaar will facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The Government proposes to route all social security payments through the banking network using the Aadhaar based platform. 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 and put in place an effective mechanism to monitor and review the progress in implementation of DBT.

IX. Financial Literacy: Financial Literacy is an important adjunct for promoting financial inclusion. We have adopted an integrated approach, wherein our efforts towards Financial Inclusion and Financial Literacy go hand in hand. Through Financial literacy and education, we disseminate information on the general banking concepts to diverse target groups, including school and college students, women, rural and urban poor, pensioners and senior citizens to enable them to make informed financial decisions. To ensure that the initiatives on the supply side are supported by initiatives on the demand side, we have nearly 800 financial literacy centres set up by banks. In addition to this, we are leveraging the infrastructure created at the state level, comprising of State Level Bankers Committee (SLBC) at the Apex which is ably supported by the Lead District Managers (LDMs) at the District level. We have designed a mass scale Financial Literacy Program with an objective to integrate the financially excluded population having low level of income and low literacy level with the formal financial system. Financial Literacy Centres organise outdoor literacy camps which are spread over a period of three months and delivered in three phases wherein along with creating awareness, accounts are also opened in the literacy camps. The program has been received well on the ground as an integrated approach of financial inclusion through creating awareness and providing access simultaneously.

X. Financial Inclusion Plan of banks: 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 used the FIPs to gauge the performance of banks under their FI initiatives. In this direction we have put in place a structured and comprehensive monitoring mechanism for evaluating banks' performance vis-à-vis their targets. To ensure support of the Top Management of the Bank to the FI process and to ensure accountability of the senior functionaries of the bank, one on one annual review meetings, chaired by the Deputy Governor, are held with CMDs/CEOs of banks. A snapshot of the progress made by banks under the 3 year Financial Inclusion Plan (April 2010-March 2013) for key parameters during the three year period indicates that banking outlets increased to nearly 2,68,000 banking as on March 2013 as against 67,694 banking outlets in villages in March 2010. 7,400 rural branches have been opened during this period of 3 years. Nearly 109 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added taking the total number of BSBDA to 182 million. Share of ICT based accounts have increased substantially – Percentage of ICT accounts to total BSBDAs has increased from 25 per cent in March 2010 to 45 per cent in March 2013. About 4,904 lakh transactions have been carried out in ICT based accounts through BCs during the three year period.

After completion of the first plan period, we realised that there is an Access Usage conundrum a large banking network has been created along with the opening of large number of bank accounts. However, we have realised that simply creating the banking infrastructure and opening banking accounts will not fulfill our objectives of achieving total financial inclusion. To take the process, forward banks have been advised to draw up fresh three year Financial Inclusion Plans for the period 2013-16, to ensure involvement of all the stake holders in the FI efforts and to ensure uniformity in the reporting structure under the Financial Inclusion Plan, banks have are to ensure that the FIPs prepared by them are disaggregated and percolated down upto the branch level. The focus under the new plan is to ensure that the large banking network created is utilised for extending other products *viz.,* credit products, which will help make the business more viable for banks. This would also ensure that the large number of accounts opened see an equally large volume of transactions taking place and people reap the benefits of getting linked to the formal financial institutions.

XI. Robust Institutional Mechanism: Over the years one of our major achievements and strength has been the creation of a robust institutional mechanism which would support the roll out of banking services across the country. The Financial Stability and Development Council (FSDC) which is headed by the Finance Minister. Under the aegis of the FSDC a Sub-Group of FSDC headed by the Governor, RBI and within that a Technical Group, headed by Deputy Governor, Dr. K. C. Chakrabarty, exclusively mandated for financial inclusion and financial literacy. In order to gauge the performance of banks and to continuously review the various models adopted under FI, the RBI has constituted a Financial Inclusion Advisory Committee (FIAC), headed by a Deputy Governor, Dr. K.C. Chakrabarty.

XII. Road Ahead Extending the frontiers of the formal financial system: For growth to be truly inclusive requires broadening and deepening the reach of banking. A wider distribution and access of financial services helps both consumers and producers increase welfare and productivity. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, avail credit and more important, insure themselves against income shocks and emergencies. As the real economy is dynamic, it is imperative that the banking system is flexible and competitive to cope with multiple objectives and demands made on it by various constituents of the economy. To address the issues of urban poverty we have brought the metropolitan urban areas like Mumbai under the planning and review mechanism of the lead bank scheme.

Now to outline the way forward for meeting our possible dream of Financial Inclusion:

5. **NEW BANK LICENSES:** To ensure that the banking system grows in size and sophistication to meet the needs of a modern economy and for improving access to banking services, we are in the process of evaluation of new bank license applications. They are expected to go beyond simply beefing up infrastructure like handheld devices, smart cards, better vendors and service providers, *etc.*, necessary to scale up the FI activities. These new banks are expected to bring new technology innovative models bring in new business and delivery models which would speed up the roll out of financial services to remote areas.Financial inclusion will work on the ACTA model Accounts, Cash in-Cash Out, transactions and adjacencies which will help to build a revenue stream.

6. **BUSINESS and Delivery Model:** There are many challenges being faced while implementing financial inclusion. Of 2,68,000 banking outlets nearly 2,21,000 are BC *i.e.*, nearly 82 per cent percent. Sustainability and scalability of the BC model is essential. More and more innovative products will have to be introduced which would benefit both banks as well as the rural people and at the same time make the BC model more viable. Review of the cash management practices for delivery of banking services through the branchless modes need to be done for ensuring scaling up of the various models.

7. **Usage of banking services:** Using the first phase of our FI initiative, we have successfully opened 74,000 outlets in the rural areas. Going forward our idea is to enable more transactions in these accounts by providing more credit products, which will not only help rural people to avail of credit at comparatively lower rates of interest but at the same time also make the BC model viable for banks. Skills and capacity building of BC is as important.

8. **Financial Education:** We have adopted an integrated approach for financial inclusion wherein the supply side initiatives will be ably supported by initiatives on the demand side. In this direction, banks will have to support financial literacy and awareness drives to make people understand the benefits of linking with the banking system. Including financial education in the school curriculum so as to educate children about the benefits of banks and banking services. Will go a long way in inculcating responsible banking habits at the young age. In this direction, the Technical Group of the FSDC has already come out with a National Strategy on Financial Education.

9. **Collaborative efforts:** Finally, financial inclusion cannot be achieved without the active involvement of all stakeholders like RBI, other financial regulators, banks, Governments, NGOs, civil societies, *etc.* The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Banks alone will not be able to achieve this unless an entire support system would be partnering with them in this mission. All the stakeholders need to join hands and make it possible. The support of policymakers, regulators, Governments, IT solution providers and public at large would bring a decisive metamorphosis in Indian banking.

10. As stated by our Governor, Dr. Raghuram Rajan, we have to reach everyone, however remote or small, with financial services. Financial inclusion does not just mean credit for productive purposes; it means credit for healthcare emergencies or to pay lumpy school or college fees. It means a safe means of remunerated savings, and an easy way to make

payments and remittances. It means insurance and pensions. It means financial literacy and consumer protection. I should emphasise the need for banks like the ones represented in this room to move beyond simply opening bank accounts to ensuring that poor customers are confident and comfortable enough to use them. Innovation in reaching out to the underserved customer, rather than simply posting higher numbers in branches or bank accounts opened, has to be part of our efforts. We need a frugal, trustworthy, and effective Indian model for financial inclusion. Our measure of success should be the jobs that are created, not by giving government subsidies or protections to labour-intensive industries or sectors but by developing a facilitating, though competitive, environment that will result in the emergence of the best solutions.This I would suggest the way forward for meeting our dream of financial inclusion. Some of the measures are already in pipeline. We are awaiting the forthcoming recommendations of the Dr. Nachiket Mor Committee, the Dr. Sambamurthy committee will also guide us how to expand mobile banking in India through encrypted SMS based funds transfer in any type of handset. So, in sum, while several challenges do present themselves they catty within them the core of opportunities which will spur development impulses and lead to growth with equity. Thank you for a patient hearing.

Chart 1: Population Group-wise Branches of SCBs

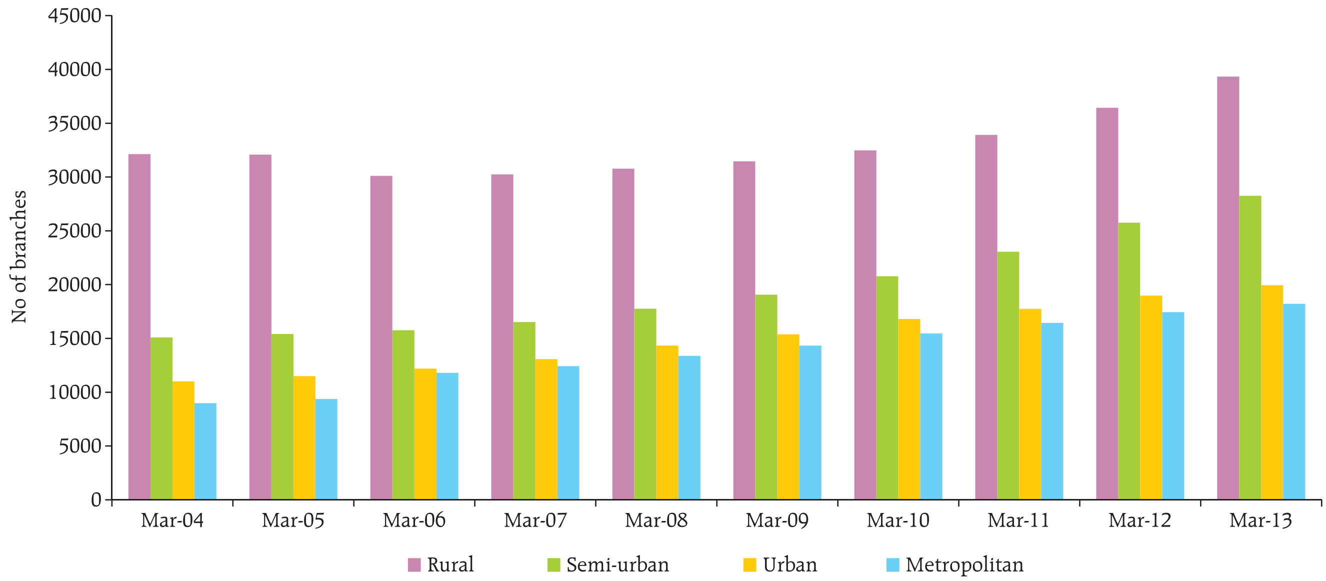
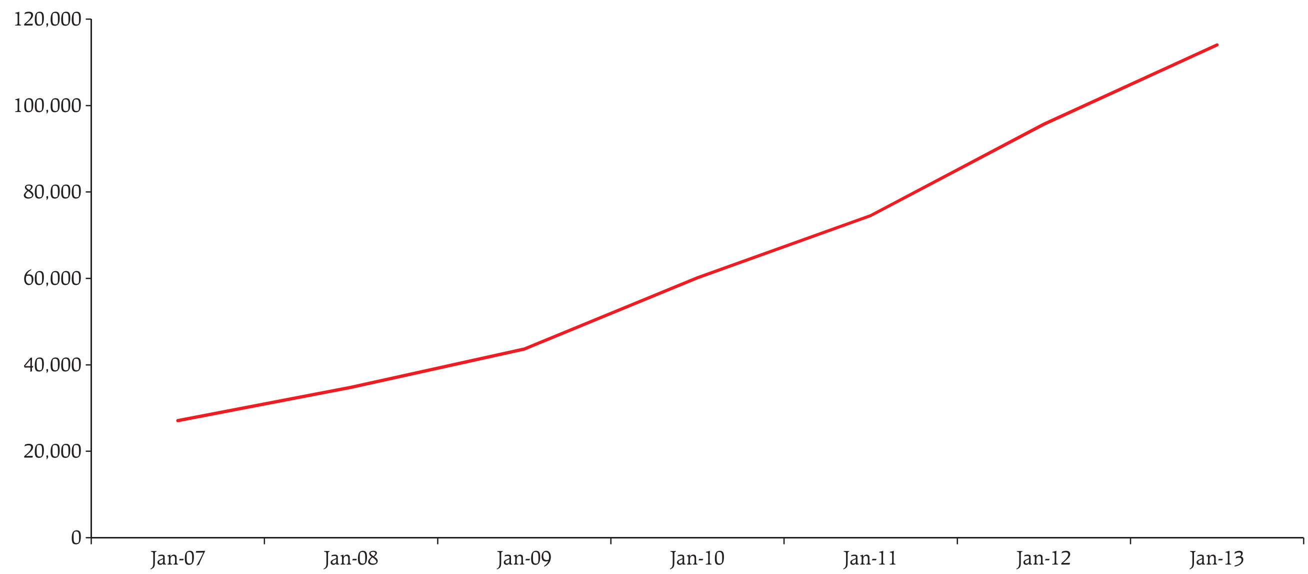


Chart 2: Expansion in No. of ATMs of SCBs



Financial Inclusion Plans – Progress at a glance

Sr. No.	Particulars	Year ended Mar 2010	Year ended Mar 2011	Year ended Mar 2012	Year ended March 2013	Progress April 2010 - March 2013
1	Banking Outlets in Villages - Branches	33,378	34,811	37,471	40,837	7,459
2	Banking Outlets in Villages - BCs	34,174	80,802	141,136	221,341	187,167
3	Banking Outlets in Villages - Other Modes	142	595	3,146	6,276	6,134
4	Banking Outlets in Villages - TOTAL	67,694	116,208	181,753	268,454	200,760
5	Urban Locations covered through BCs	447	3,771	5,891	27,143	26,696
6	Basic Savings Bank Deposit A/c through branches (No. in millions)	60.19	73.13	81.20	100.80	40.61
7	Basic Savings Bank Deposit A/c through branches (Amt. in billions)	44.33	57.89	109.87	164.69	120.36
8	Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.27	31.63	57.30	81.27	68.00
9	Basic Savings Bank Deposit A/c through BCs (Amt. in billions)	10.69	18.23	10.54	18.22	7.53
10	BSBDA Total (in millions)	73.45	104.76	138.50	182.06	108.61
11	BSBDA Total Amt. (in billions)	55.02	76.12	120.41	182.92	127.90
12	OD facility availed in Basic Savings Bank Deposit A/c (No. in millions)	0.18	0.61	2.71	3.95	3.77
13	OD facility availed in Basic Savings Bank Deposit A/c (Amt. in billions)	0.10	0.26	1.08	1.55	1.45
14	KCCs - (No. in millions)	24.31	27.11	30.24	33.79	9.48
15	KCCs - (Amt. in billions)	1,240.07	1,600.05	2,068.39	2,622.98	1,382.91
16	GCCs - (No. in millions)	1.39	1.70	2.11	3.63	2.24
17	GCCs - (Amt. in billions)	35.11	35.07	41.84	76.34	41.23
18	ICT A/Cs-BC- Transaction - No. in millions	26.52	84.16	155.87	250.46	490.49
19	ICT A/Cs-BC- Transactions - Amt. in billions	6.92	58.00	97.09	233.88	388.97