*Financial Inclusion**

Deepali Pant Joshi

INTRODUCTION

1. Mr. Sampath Kumar, Ms Preetha Mishra and my dear ladies and gentlemen. I am delighted to be with you this morning for the inaugural session of the fifth Dun and Bradstreet Financial Inclusion Conclave. I extend warm congratulations to Dun and Bradstreet for hosting the event in the beautiful city of Kolkata.

2. Financial inclusion is not a new dispensation. Bank Nationalisation in 1969 and the tremendous push for branch building which followed in its wake were attempts at including the excluded. Despite geographical and functional reach of the commercial banks, large number of people remain excluded. Small and marginal farmers, women, unorganised sector workers, artisans, self-employed, unemployed, pensioners, *etc.,* remain excluded from the opportunities and services provided by the formal financial sector.

3. If this is something we have been working on since 1969 what is the difference now? Critically its technology which enables undreamt of outreach. For financial inclusion to succeed and an effective business and delivery model to be in place it is essential that servicing costs are brought down and large numbers covered rapidly. This exponential growth is a possible dream with the use of technology.

4. Banks including RRBs, have migrated to Core Banking System (CBS), have developed in built capability to provide remittances using electronic payment systems such as the Real Time Gross Settlement System (RTGS), National Electronic Funds Transfer (NEFT), National Electronic Clearing Service (NECS), Immediate Payments Service (IMPS), Aadhaar Enabled Payment Systems (AEPS) *etc.* Banks are increasingly using alternate channels of delivery; the number of ATMs is even more than the number of branches. All the rural branches are expected to have an e-ATM in place in the near future.

5. Access to finance for those who are getting crowded out of the credit markets is an equally important element. Therefore, the Reserve Bank has reinforced its efforts to improve financial access, especially for small businesses and individual households. The RBI has set up a Committee on Comprehensive Financial Services for small businesses and low income households under the Chairmanship of Dr. Nachiket Mor a Director on the RBI Central Board of Directors. The mandate of the Mor, Committee is to frame a clear and detailed vision of financial inclusion and financial deepening in India and to lay down a set of design principles that will guide the development of institutional frameworks and regulation for ensuring these outcomes.

6. Financial inclusion is defined by the RBI "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost from mainstream financial institutions."

7. In January 2010, the Reserve Bank advised all public and private sector banks to submit a Board-approved three-year Financial Inclusion Plan (FIP) starting in April 2010. They were advised to devise FIPs congruent with their business strategy and comparative advantage and to make FIPs an integral part of their corporate plans. These plans include: self-set targets for rural brick & mortar branches opened; BCs deployed; coverage of unbanked villages with population above and below 2,000 through branches/BCs/other modes; no-frills accounts opened, including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC) issued; and other products designed for financially excluded segments. Banks were advised to integrate the Board-approved FIPs with their business plans and to include the criteria on financial inclusion

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as a parameter in the performance evaluation of their staff.

8. We have adopted a planned and structured approach to achieve financial inclusion through the FIPs, as a self set targeted intervention with measurable and monitor able outcomes. The implementation of these plans is closely monitored by the Reserve Bank on a monthly basis through a quantitative reporting format. The qualitative aspects of the FIPs are monitored through a qualitative report submitted by banks every quarter.

Periodic monitoring of progress – Quantitative and Qualitative parameters. These Board approved plans are the subject of an annual comprehensive review – Deputy Governor Dr. Chakrabarty holds one to one meetings with CMDs of major banks to discuss the progress made by them against their own self set goals, the barriers to progress, the initiatives of their Banks and the way forward. RRBs, having migrated to CBS in the end of 2011, have also formulated similar comprehensive FIPs.

PROGRESS :

9. A snapshot of the progress made by banks under the 3-year FIP (April 2010-March 2013) on key parameters itself speaks of the journey travelled so far:

i. Banking outlets in villages have increased to nearly 2,68,000 from 67,694 outlets in March 2010.

ii. About 7,400 rural branches have been opened during this 3-year period compared with a reduction of about 1,300 rural branches during the last two decades.

iii. Nearly 109 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added, taking the total number of BSBDA to 182 million. The share of ICT-based accounts has increased substantially. The percentage of ICT accounts to total BSBDAs increased from 25 per cent in March 2010 to 45 per cent in March 2013.

iv. With the addition of nearly 9.48 million farm sector households during this period, 33.8 million households have been provided with small entrepreneurial credit as at the end of March 2013.

v. With the addition of nearly 2.24 million non-farm sector households during this period, 3.6 million households have been provided with small entrepreneurial credit as at the end of March 2013.

About 490 million transactions have been carried out in ICT-based accounts through BCs during the three-year period. The number of transactions through ICT-based BC outlets, though increasing, is still very low when compared with the manifold increase in the number of banking outlets and the number of accounts. The focus on monitoring is now more on the usage of these accounts, which is to be monitored through the number and value of transactions in BSBDAs and on the credit disbursed through ICT-based BC outlets.

Financial Inclusion Plan 2013-16

10. The first three-year Financial Inclusion Plan of banks for the period 2010-2013 has ended. Although there has been reasonable progress in the penetration of banking services and opening of basic bank accounts, the number of transactions through ICT-based BC outlets is still low. To continue the process of ensuring access to banking services to the excluded, banks are to draw up a 3-year FIP for the period 2013-16. Banks have now been advised that their FIPs should be disaggregated to the branch level. The disaggregation of the plans is being done to ensure the involvement of all stakeholders in the financial inclusion efforts.

Direct Benefit Transfer:

11. The Reserve Bank has played a proactive role in the rollout of the Direct Benefit Transfer (DBT) scheme. State Level Bankers' Committee (SLBC) Convenor Banks were advised to co-ordinate with the Government functionaries for implementation of Aadhaar-enabled payments. Banks have to expedite the process of opening bank accounts in camp mode and seeding of

accounts with Aadhaar numbers. The status of the rollout of Aadhaar-enabled payments is a regular agenda item for discussion in SLBC meetings as part of Financial Inclusion/Electronic Benefit Transfer (EBT) implementation. The DBT was rolled out in 43 districts in the first phase from January 1, 2013, and has been extended to 78 districts from July 1, 2013. Eventually, all districts in the country will be covered.

12. **High-Level Financial Inclusion Advisory Committee** moving towards universal financial inclusion has been a national commitment as well as a policy priority for the Reserve Bank. In order to spearhead efforts towards greater financial inclusion, the Reserve Bank has constituted a Financial Inclusion Advisory Committee (FIAC) chaired by a Deputy Governor. The FIAC has a few Directors from the Central Board of the Reserve Bank, experts drawn from NGOs and civil society representatives as members. The expertise and experience of the members will be leveraged: to develop viable and sustainable banking service delivery models that provide accessible and affordable financial services; to develop products and processes for rural as well as urban consumers who are currently outside the banking network; and to create an appropriate regulatory framework to ensure that financial inclusion and financial stability move together.

Financial Literacy:

13. Building financial capability through financial literacy is a key component of financial inclusion. It means providing financial education so that individuals can identify and use appropriate financial products and services in order to build and preserve their assets over time. It should make people better informed, better educated and more confident, able to take greater responsibility for their financial affairs and able to play a more active role in the market for financial services.

14. 718 FLCs have been set up as at the end of March 2013. A total of 2.2 million people have been educated through indoor education to walk-in persons and through outdoor activities such as awareness camps/ choupals, goshtis , seminars and lectures in a one-year period, from April 2012 to March 2013. It has advised all FLCs and rural branches of scheduled commercial banks to conduct a minimum of one outdoor financial literacy camp every month.

National Strategy for Financial Education (NSFE) :

15. The NSFE has been prepared under the aegis of a Technical Group of the Financial Stability Development Council (FSDC). The NSFE will be implemented in a timeframe of five years and aims to establish initial contact with 500 million adults and educate them on key savings, protection and investment-related products so that they are empowered to take prudent financial decisions. It also seeks to create awareness about consumer protection and the grievance redressal mechanisms available in the country. Under the NSFE, a National Centre for Financial Education (NCFE) is proposed to be set up as an institutional mechanism to co-ordinate the efforts of all financial sector regulators. The NCFE will launch a common website on financial education for the country.

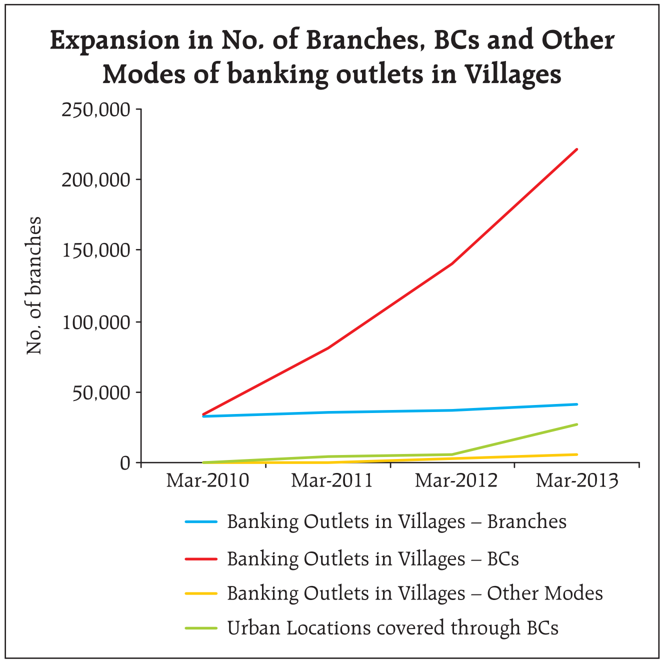
Now to flag some issues:

16. The World bank (2012) Findex Survey on, "Measuring Financial Inclusion Indicators"World bank Policy Research Working paper #6025 states that in India only 35 per cent of adults had access to a formal Bank account, only 2 per cent of adults use a formal account to receive remittances from relatives and 4 per cent use an account to receive Government payments. These are 2011 figures and further ground has been covered but the challenges still remain.

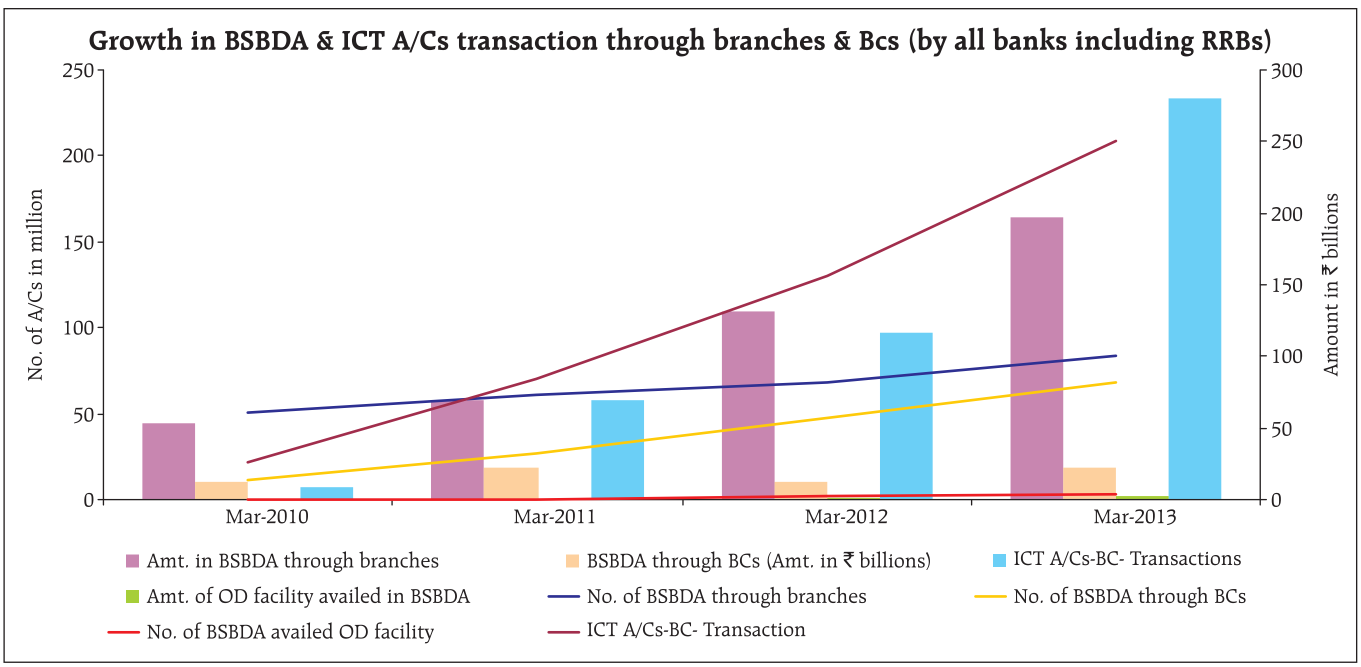
17. Financial Inclusion Plan – Summary progress of all banks including RRBs

SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended Mar 13
1	Banking Outlets in Villages – Branches	33,378	34,811	37,471	40,837
2	Banking Outlets in Villages – BCs	34,174	80,802	141,136	221,341
3	Banking Outlets in Villages – Other Modes	142	595	3,146	6,276
4	**Banking Outlets in Villages – TOTAL**	**67,694**	**116,208**	**181,753**	**268,454**
5	Urban Locations covered through BCs	447	3,771	5,891	27,143

SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended Mar 13
6	Basic Savings Bank Deposit A/c – branches (No. In millions)	60.19	73.13	81.20	100.80
7	Basic Savings Bank Deposit A/c – branches (Amt. In billions)	44.33	57.89	109.87	164.69
8	Basic Savings Bank Deposit A/c – BCs (No. in millions)	13.27	31.63	57.30	81.27
9	Basic Savings Bank Deposit A/c – BCs (Amt. in billions)	10.69	18.23	10.54	18.22
10	OD facility availed in BSBDA's (No. In millions)	0.18	0.61	2.71	3.95
11	OD facility availed in BSBDA's (Amt. in billions)	0.10	0.26	1.08	1.55
12	KCCs – (No. in millions)	24.31	27.11	30.24	33.79
13	KCCs – (Amt In billions)	1,240.07	1,600.05	2,068.39	2,622.98
14	GCCs – (No. in millions)	1.39	1.70	2.11	3.63
15	GCCs – (Amt In billions)	35.11	35.07	41.84	76.34
16	ICT A/Cs-BC- Transaction -No. in millions	26.52	84.16	155.87	250.46
17	ICT A/Cs-BC- Transactions – Amt in billions	6.92	58.00	97.09	233.88



18. The first of many questions is why this specification of mainstream financial institutions, why a bank led model? For three reasons inter alia, firstly bank deposits are guaranteed by the Deposit Insurance Guarantee Corporation and the depositor's money remains safe and secure. Secondly, Banks are regulated and well capitalised institutions subject to RBIs direct control exercised through the processes of onsite and offsite inspections and supervision. Regulation is aimed at protecting depositors' interests, orderly development and conduct of banking operations and fostering the overall health of the banking system. Thirdly, we have



a robust widespread banking system unlike several other countries. For these countries where the Banking brick and mortar network is not present the only way forward is to leverage technology. It is simpler to build digital gateways across Africa while for us let me say we use the banking system because it is there as we have penetrative outreach through commercial banks, with vast network of branches we have followed a multi pronged approach to financial inclusion and this has enabled real gains.

19. Thirdly, why the close supervision of the BC Model and restriction of the area within which the BC must operate. Firstly, because it is operationally feasible for the BC to provide intensive services within a defined radius and secondly, because cash management is a major issue. Cash collected by the BC is ultimately the banks cash and it is the credibility of the bank which is at stake. Thirdly, the customer is not a customer of the BC but of the bank. The BC is envisaged merely as a pass through agent who enables extension in the penetrative reach of the Bank and through the ICT model and by using a hand-held technology device enables banking services and other services such as the electronic benefit transfer services at the doorstep of the borrower.

Combination of Branch and Branchless Banking

20. As a prerequisite to the implementation of the DBT, every eligible individual should have a bank account. Further, to make disbursements at the doorstep through the ICT-based BC model, banking outlets, either through brick & mortar branches or the branchless mode, are required in all villages across the country. For this to succeed, it is important that quality services are provided through the new ICT-based BC outlets. Therefore, an intermediary low-cost brick-and-mortar structure is required between the base branches and BC locations. This will provide timely support to BC outlets, ensure close supervision of BC operations and give them credibility and increase people's confidence in BC services. Hence, banks have been advised to plan for an increase in the proportion of branches that cover unbanked areas. Banks have also been advised to consider setting up Financial Inclusion Centres, which would act as centres exclusively focussing on customers serviced through BCs.

21. To step up the opening of branches in rural areas, the RBI has mandated banks 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 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 quicker branch expansion in unbanked rural centres.

22. Along with increasing brick and mortar presence through branch expansion, the RBI has also encouraged banks to adopt other branchless modes such as BC outlets, other modes such as Kiosks, off-site Rural ATMs, mobile vans, *etc.*, so as to resolve the last mile connectivity issues.

Enlarging the universe of BC's

23. We have enlarged the universe of BCs as we go along and we have enabled the entry of For Profit companies in 2010. We have done this as we want to leverage their well established distribution networks especially in the rural heart land for the extension of financial inclusion to reach the unreached.

Tapping technology platforms

24. To enable a successful financial inclusion, innovation of products for the specific needs of the poor is not only necessary but also an essential condition. Today, banks can provide a bouquet of financial services through the various networks of agents and branches by leveraging and fine tuning technology platforms. Technology holds the key to providing models for efficient delivery of small value

transactions in large volumes while reaping economies of scale. The implementation of such effective, scalable and platform-independent technology will help drive down the cost of providing banking services to the poor.

25. The Immediate Payments Service (IMPS), an instantaneous 24x7 electronic funds transfer system has been developed by the National Payment Corporation of India (NPCI). IMPS facilitate customers to use mobile instruments as a channel for accessing their bank accounts and put high interbank fund transfers in a secured manner with immediate confirmation features.

Aadhaar Enabled Payment Systems (AEPS)

26. The AEPS architecture designed by Unique Identification Authority of India (UIDAI) in collaboration with the NPCI is a platform which banks can leverage upon for expanding their financial inclusion initiatives. The basic premise of AEPS is that one BC Customer Service Point (CSP) will have the ability to service customers of many banks based on the unique bio-metric identification data stored in the Aadhaar database. The AEPS platform is expected to empower a bank customer to use Aadhaar as his/her identity to access the respective Aadhaar enabled bank account and perform basic banking transactions like balance enquiry, cash withdrawal and deposit through the BC.

Conclusion

27. The RBI has adopted a Bank led model but one which is essentially Model Neutral. We have tried to create an enabling environment that facilitates competition and fosters innovation.

28. Once the financial Inclusion plans are implemented customers will be able to transact electronically with each other as well as with individuals and firms outside the village. This will in days to come reduce dependence on Cash and High volumes will lower the costs of transactions.

29. International experience reflects that digitising social transfers is an effective way of bringing the excluded within the financial system the Business Case for Banks in this segment, as of now, depends on Government payments. Going forward we hope that banks will introduce new products and services crafted to the needs and income streams of poor borrowers which will enable self sustaining financial inclusion.

30. As Banking is a public good this is essential in the interests of Public Policy.