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RESERVE BANK OF INDIA

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**RBI releases Report of the Committee on
Medium-term Path on Financial Inclusion**

The Reserve Bank of India has today placed on its website, the [Report of the Committee on Medium-term Path on Financial Inclusion](#) (Chairman: Shri Deepak Mohanty). Comments may please be [emailed](#) or sent by post to the Principal Chief General Manager, Reserve Bank of India, Financial Inclusion and Development Department, 10th Floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001 by January 29, 2016.

Background

It may be recalled that, taking inspiration from the remarks of the Hon'ble Prime Minister made in his address at the 80th anniversary celebrations of the Reserve Bank, this Committee was constituted with the objective of working out a medium-term (five year) measurable action plan for financial inclusion. It was mandated to, inter *alia*, review the existing policy of financial inclusion including supportive payment system and customer protection; study cross-country experiences of financial inclusion to identify key learnings, particularly in the area of technology-based delivery models; articulate the underlying policy and institutional framework and finally, suggest a monitorable medium-term action plan for financial inclusion in terms of its various components such as payments, deposit, credit, social security transfers, and other financial products and services.

Vision

The financial inclusion initiative envisaged by the Committee is much broader in scope, going beyond the traditional domain of the Reserve Bank. The Committee recognised that substantial progress has been made in terms of access of financial products and services especially after the launch of the Jan Dhan Yojana. However, there were significant gaps in terms of usage, inadequate 'last mile' service delivery, and exclusion of women as well as small and marginal farmers and very low formal link for micro and small enterprises. There were also systemic issues of stability of the credit system, over-indebtedness and agrarian distress. Against this background, the Committee set a much wider vision of financial inclusion as "convenient' access to a basket of basic formal financial products and services that should include savings, remittance, credit, government-supported insurance and pension products to small and marginal farmers and low-income households at reasonable cost with adequate protection progressively supplemented by social cash transfers, besides increasing the access of small and marginal enterprises to formal finance with a greater reliance on technology to cut costs and improve service delivery, such that by 2021, over 90 per cent of the hitherto underserved sections of society become active stakeholders in economic progress empowered by formal finance." The Committee was of the view that a meaningful financial inclusion is not feasible without government-to-person (G2P) cash transfer.

Salient recommendations

- Banks have to make special efforts to step up account opening for females, and the Government may consider a deposit scheme for the girl child – *Sukanya Shiksha* - as a welfare measure.
- Given the predominance of individual account holdings (94 per cent of total credit accounts), a unique biometric identifier such as *Aadhaar* should be linked to each individual credit account and the information shared with credit information companies to enhance the stability of the credit system and improve access.
- To improve ‘last mile’ service delivery and to translate financial access into enhanced convenience and usage, a low-cost solution should be developed by utilisation of the mobile banking facility for maximum possible G2P payments.
- In order to increase formal credit supply to all agrarian segments, digitisation of land records is the way forward. This should be backed by an Aadhaar-linked mechanism for Credit Eligibility Certificates to facilitate credit flow to actual cultivators.
- To phase out the agricultural interest subvention scheme which has distorted the agricultural credit system and ploughing the subsidy amount into an affordable technology aided universal crop insurance scheme for marginal and small farmers for all crops with a monetary ceiling of Rs.200,000 at a nominal premium to end agrarian distress.
- A scheme of ‘Gold KCC’ (kisan credit card) with higher flexibility for borrowers with prompt repayment records, which could be dovetailed with a government-sponsored personal insurance, and digitisation of KCC to track expenditure pattern.
- Encourage multiple guarantee agencies to provide credit guarantees in niche areas for micro and small enterprises (MSEs), and explore possibilities for counter guarantee and re-insurance.
- Introduction of a system of unique identification for all MSME borrowers and sharing of such information with credit bureaus.
- Establishing a system of professional credit intermediaries/advisors for MSMEs to help both the sector banks in credit assessment.
- To further step up financing of the MSE Sector a framework for movable collateral registry may be introduced.
- Commercial banks may be enabled to open specialised interest-free windows with simple products like demand deposits, agency and participation certificates on the liability side and cost-plus financing and deferred payment, deferred delivery contracts on the asset side.
- An eco-system comprising multiple models should be encouraged with will foster partnerships amongst national full-service banks, regional banks of various types, NBFCs, semi-formal financial institutions, as well as the newly-licensed payments banks and small finance banks.
- Banks’ business model to integrate Business Correspondents (BCs) with appropriate monitoring by designated link branches and greater mix of fixed location BC outlets to win the confidence of the common person.
- Introduction of a system of online registration of BCs, their training and monitoring their activity including delinquency, and entrusting more complex financial products such as credit to trained BCs with good track record.
- A geographical information system (GIS) to map all banking access points.

- To step up the self help group (SHG)-bank linkage programme (SBLP) initiated by NABARD with the help of concerned stakeholders including government agencies as a livelihood model.
- Corporates should be encouraged to nurture SHGs as part of their Corporate Social Responsibility (CSR) initiatives.
- Provision of credit history of all SHG members by linking with individual Aadhaar numbers to check over-indebtedness
- To restore tax-exempt status for securitisation vehicles for efficient risk transfer.
- More ATMs in rural and semi-urban centres, interoperability of micro ATMs and use of application-based mobiles as point- of- sale (PoS) for creating more touch points for customers.
- National Payments Corporation of India (NPCI) to develop a multi-lingual mobile application for customers who use non-smart phones, especially for users of national unified USSD platform (NUUP).
- Permit a small-value cash-out with adequate KYC along for non-bank prepaid payment instruments (PPIs) to incentivise usage.
- To allow PPI interoperability for non-banks.
- Levying a surcharge on credit card transactions by merchant establishments should not be allowed.
- Banks to complete the task of linking of deposit accounts with Aadhaar in a time bound manner so as to create the necessary eco-system for social cash transfer.
- Financial Literacy Centre (FLC) network to be strengthened to deliver basic financial literacy at the ground level. Banks to identify lead literacy officers to be trained by the Reserve Bank in its College of Agricultural Banking (CAB) who in turn could train the people manning the FLCs.
- The Reserve Bank to commission periodic dipstick surveys across states to ascertain the extent of financial literacy.
- All regulated entities should be required to put in place a technology-based platform for SMS acknowledgement and disposal of customer complaints.
- To strengthen the Information Monitoring System for District Consultative Committees (DCC) and State Level Bankers Committee (SLBC) deliberations.
- The responsibility of the SLBC/lead bank scheme to be rotated among to instil a spirit of competition.
- SLBCs to focus more on inter-institutional issues, livelihood models, social cash transfer, gender inclusion, Aadhaar seeding, universal account opening, and less on credit deposit ratio which is a by-product.
- As a part of second generation reforms, the government can replace the current agricultural input subsidies on fertilisers, power and irrigation by a direct income transfer scheme.

The Committee has also made several other recommendations to improve the governance system, strengthen the credit infrastructure and augment the government social cash transfer so as to increase the personal disposable income of the poor to put the economy on a medium-term sustainable inclusion path.