IV CREDIT DELIVERY AND FINANCIAL INCLUSION

The Reserve Bank in pursuit of its commitment to financial inclusion took several initiatives to expand the reach of formal banking facilities to all. The roadmap to provide banking outlets in unbanked villages with less than 2,000 population has been drawn and allotted to banks. Acknowledging the problem of financial exclusion in metropolitan cities, the Lead Bank Scheme was extended to 16 metropolitan districts. Having created a robust infrastructure for promoting access, the focus of the next stage of the financial inclusion plans is on stepping up usage of bank accounts. Our policies have enhanced financial inclusion by addressing imperfections in the supply of financial services and increasing demand for financial services through financial literacy initiatives that raise awareness and lead to more responsible use of finance.

IV.1 The Reserve Bank has taken various steps to improve flow of credit to all the productive sectors of the economy. The main challenge is to bring those sections of society that are financially excluded into the ambit of the formal financial system. Various initiatives have been taken in this area including the rollout of financial inclusion plans (FIPs), enhancing the scope of the business correspondent (BC) model, improving credit delivery procedures with respect to the micro and small enterprises (MSE) sector and encouraging the adoption of information and communication technology (ICT) solutions.

CREDIT DELIVERY

Performance in achievement of priority sector lending targets

IV.2 The priority sector comprises of a vast section of the population engaged in sectors such as agriculture, MSEs, education and housing. As per the extant guidelines on priority sector lending, a target of 40 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposures (CE of OBE), whichever is higher, as on March 31 of the preceding year, has been prescribed for lending to the priority sector by domestic scheduled commercial banks and foreign banks with at least 20 branches. For foreign banks with less than 20 branches, the target for lending to the priority sector is 32 per cent of ANBC or CE of OBE, whichever is higher, as on March 31 of the preceding year. The performance of private sector banks has been better, as compared to public sector and foreign banks (Table IV.1).

IV.3 As per the data received from the banks, 10 out of 26 public sector banks, 4 out of 20 private sector banks and 1 out of 39 foreign banks could not achieve the target of the overall priority sector as on March 31, 2014.

Flow of credit to the agricultural sector

IV.4 Agriculture credit is one of the major drivers of agricultural production. With the objective of making credit available to farmers, the government has been fixing targets for flow of credit to agriculture by the banking sector every year. The target for 2013-14 was fixed at ₹7,000 billion. Credit to the agriculture sector has been higher than

Table IV.1: Priority Sector Advances

(Amount in ₹ billion)

As on March 31	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2013	12,822 (36.2)	3,274 (37.5)	849 (35.1)
2014	16,190 (39.4)	4,645 (43.9)	907 (35.8)

Notes: 1. Figures in brackets are percentages to ANBC or CE of OBE, whichever is higher, in the respective groups.
2. The data for 2014 is provisional.

Table IV.2: Target and Achievement for Agricultural Credit

(Amount in ₹ billion)

Year	Target	Achievement
1	2	3
2010-11	3,750	4,683
2011-12	4,750	5,110
2012-13	5,750	6,074
2013-14	7,000	7,116*

*: Provisional.
Source: National Bank of Agriculture and Rural Development (NABARD)

targets in recent years (Table IV.2). However, credit by cooperative banks and regional rural banks (RRBs) has been less than their respective targets (Table IV.3).

Interest subvention scheme has mixed outcomes; recovery of direct agriculture advances needs improvement

IV.5 The government introduced the interest subvention scheme in 2006-07 for short-term crop loans up to ₹0.3 million, which has been continuing ever since with minor variations. Currently, it is providing interest subvention to banks, RRBs and cooperative banks with respect to short term production credit up to ₹0.3 million provided they make available the credit at the ground level at 7 per cent per annum. Besides, an additional interest subvention of 3 per cent per annum is also provided for farmers who repay the loans in time making the effective rate of interest for such farmers at 4 per cent. From 2013-14, the subvention is available to private sector SCBs with respect to loans given by their rural and semi-urban branches.

Table IV.3: Bank Group-wise Target and Achievement for Agricultural Credit: 2013-14

(Amount in ₹ billion)

Agency	Target	Achievement*
1	2	3
Commercial Banks	4,750	5,090
Cooperative Banks	1,250	1,199
RRBs	1,000	827
Total	**7,000**	**7,116**

*: Provisional.
Source: NABARD/Indian Banks Association/PSBs.

Table IV.4: NPAs-Agriculture Loans

(₹ billion)

Year	Agriculture Loans (Outstanding as on March 31)	Gross NPAs (Agriculture)*	Ratio of Gross NPAs (Agriculture) to Agriculture Loans (Outstanding as on March 31)
1	2	3	4
2008	3,081	97	3.2
2009	3,744	72	1.9
2010	4,636	104	2.2
2011	5,072	167	3.3
2012	5,802	248	4.3
2013	6,428	302	4.7
2014*	7,792	340	4.4

*: Provisional.

IV.6 The subvention scheme is limited to farmers availing crop loans of up to ₹0.3 million. Interest subvention as an incentive for prompt repayment has not helped in improving the asset quality in the agriculture sector. The non performing assets (NPAs) ratio in agriculture loans have been rising and stood at 4.4 per cent as on March 31, 2014 (Table IV.4). The recovery of agriculture advances has been almost stagnant at around 75 per cent and needs improvement (Table IV.5).

Rationale for the revised General Credit Card (GCC) scheme

IV.7 During the FIP review meetings held with banks during May-July 2013, it was observed that

Table IV.5: Recovery of Direct Agriculture Advances

(₹ billion)

Year	Total Demand	Total Recovery	Per cent of Recovery to Demand
1	2	3	4
2011	1,822	1,383	75.9
2012	1,918	1,429	74.5
2013	2,596	1,976	76.1

the data reported by the banks under GCC was not showing entrepreneurial credit extended to individuals. In order to enhance the coverage of the GCC scheme to ensure greater credit linkages for all productive activities within the overall priority sector guidelines and to capture all credit extended by banks to individuals for non-farm entrepreneurial activities, GCC guidelines were revised on December 2, 2013. The revised scheme does not prescribe any ceiling on the loan amount as long as the loan is for non-farm entrepreneurial activity and is otherwise eligible for classification under priority sector whereas the old scheme stipulated a limit of ₹25,000 for an individual. Further, the credit extended under the revised scheme is for non-farm entrepreneurial activities whereas under the old scheme, there was no such insistence on purpose or end use of credit.

Kisan Credit Cards (KCC) scheme

IV.8 The KCC scheme was revised in May 2012 and all the banks were advised to issue smart cards to all farmers. As on September 30, 2013 of the about 20.0 million operative cards, around 4.9 million were smart cards issued by public and private sector banks.

Flow of credit to micro, small and medium enterprises

IV.9 Credit to the MSE sector by scheduled commercial banks (SCBs) registered a growth of 23.1 per cent in 2013-14 (Table IV.6).

Table IV.6: Credit to Micro and Small Enterprises by SCBs

As on end March	Outstanding Credit to the MSE sector		MSE credit as per cent of ANBC
	Number of accounts (in million)	Amount outstanding (₹ billion)	
1	2	3	4
2013	11.2 (13.1)	6,872.1 (30.2)	14.8
2014	12.4 (10.7)	8,461.3 (23.1)	15.6

Note: 1. Data for 2014 are provisional.
2. Figures in parentheses indicate y-o-y change in per cent.
Source: Scheduled commercial banks

Implementation of the Lead Bank Scheme (LBS)

IV.10 The Monetary Policy Statement for 2013-14 stated that the challenge of financial exclusion is also widespread in metropolitan areas, especially among the disadvantaged and low income groups. To facilitate doorstep banking for the excluded segment of the urban poor and to provide an institutional mechanism for coordination between the government and the banks, it was decided to bring all districts in metropolitan areas under LBS. Accordingly, lead bank responsibility was assigned to designated banks in 16 districts in metropolitan areas, thus bringing the entire country under the scheme. The processes of grass root level credit planning are initiated and monitored through Block Level Bankers' Committee, District Consultative Committee (DCC), District Level Review Committee (DLRC) and State Level Bankers' Committee (SLBC). In these fora, bankers as well as government agencies meet at a common platform to address impediments and facilitate enablers of development. While important issues that impact the whole state are discussed in SLBCs, issues of concern specific to the district are resolved in DCC meetings.

Lead bank responsibility for districts

IV.11 As on end March 2014, lead bank responsibility was assigned to designated banks in 671 districts in the country as compared to 644 districts as at end March 2013. In the seven new districts formed in Gujarat, Dena Bank, Bank of Baroda and State Bank of India were assigned lead bank responsibility. Bank of India was assigned lead bank responsibility in the one new district in Madhya Pradesh and the State Bank of India was assigned lead bank responsibility in all the 4 new districts in Meghalaya. Further, 16 districts in metropolitan areas of Chennai (1), Delhi (11), Hyderabad (1), Kolkata (1) and Mumbai (2) were also brought under LBS during 2013-14.

FINANCIAL INCLUSION

Roadmap for providing banking outlets in unbanked villages

IV.12 The Reserve Bank continued efforts to create a conducive and enabling environment for access to financial services to extend door step banking facilities in all the unbanked villages in a phase-wise manner. During Phase I, 74,414 unbanked villages with population more than 2,000 were identified and allotted to various banks through SLBCs for coverage through various modes, that is, branches, BCs or other modes such as ATMs and satellite branches etc. All these unbanked villages have been covered by opening banking outlets comprising 2,493 branches, 69,589 BCs and 2,332 through other modes.

IV.13 In Phase II, under the roadmap for provision of banking outlets in unbanked villages with population less than 2,000, about 4,90,000 unbanked villages have been identified and allotted to banks for coverage in a time bound manner by March 31, 2016. As per the progress reports received from SLBCs, banks had opened banking outlets in 183,993 unbanked villages by March 2014, comprising 7,761 branches, 163,187 BCs and 13,045 through other modes. The Reserve Bank is closely monitoring the progress made by the banks under the roadmap.

Financial inclusion plan and its performance evaluation

IV.14 The Reserve Bank has encouraged banks to adopt a structured and planned approach to financial inclusion (FI) with commitment at the highest levels through preparation of board approved FIPs. The first phase of FIPs was implemented over 2010-13. The Reserve Bank has used FIPs to gauge the performance of banks under their FI initiatives. With the completion of the first phase, a large banking network has been created and a large number of bank accounts have also been opened (Table IV.7). However, it has been

Table IV.7: Financial Inclusion Plan-Summary Progress of all Banks including RRBs

Particulars	Year ended March 2010	Year ended March 2013	Year ended March 2014	Progress April 2013 - March 2014
1	2	3	4	5
Banking Outlets in Villages – Branches	33,378	40,837	46,126	5,289
Banking Outlets in Villages – Branchless Mode	34,316	2,27,617	3,37,678	1,10,061
Banking Outlets in Villages –Total	67,694	2,68,454	3,83,804	1,15,350
Urban Locations covered through BCs	447	27,143	60,730	33,587
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	100.8	126.0	25.2
Basic Savings Bank Deposit A/c through branches (Amt. in ₹ billion)	44.3	164.7	273.3	108.6
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	81.3	116.9	35.7
Basic Savings Bank Deposit A/c through BCs (Amt. in ₹ billion)	10.7	18.2	39.0	20.7
BSBDAs Total (No. in million)	73.5	182.1	243.0	60.9
BSBDAs Total (Amt. in ₹ billion)	55.0	182.9	312.3	129.3
OD facility availed in BSBDAs (No. in million)	0.2	4.0	5.9	2.0
OD facility availed in BSBDAs (Amt. in ₹ billion)	0.1	1.6	16.0	14.5
KCCs – (No. in million)	24.3	33.8	39.9	6.2
KCCs – (Amt. in ₹ billion)	1240.1	2623.0	3684.5	1061.5
GCC- (No. in million)	1.4	3.6	7.4	3.8
GCC - (Amt. in ₹ billion)	35.1	76.3	1096.9	1020.6
ICT A/Cs-BC- Transaction - (No. in million) (During the year)	26.5	250.5	328.6	328.6
ICT A/Cs-BC- Transactions - (Amt. in ₹ billion) (During the year)	6.9	233.9	524.4	524.4

Note: Figures in column 5 might not tally due to rounding off of numbers.

observed that the accounts opened and the banking infrastructure created has not seen substantial operations in terms of transactions. In order to continue with the process of ensuring meaningful access to banking services to the excluded, banks were advised to draw up fresh three-year FIPs for 2013-16. Banks were also advised that the FIPs prepared by them are disaggregated and percolate down to the branch level so as to ensure the involvement of all the stakeholders in FI efforts and also to ensure uniformity in the reporting structure under FIPs. The focus under the new plan is now more on the volume of transactions in the large number of accounts opened. A brief of the performance of banks under FIP up to March 31, 2014 is:

i) The number of banking outlets has gone up to nearly 3,84,000. Out of these, 1,15,350 banking outlets were opened during 2013-14.

ii) Nearly 5,300 rural branches were opened during the last one year. Out of these, nearly 4,600 branches were opened in unbanked rural centres (Tier V and Tier VI centres).

iii) Nearly 33,500 BC outlets were opened in urban locations during the year taking the total number of BC outlets in urban locations to 60,730 as at the end of March 2014.

iv) More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million.

v) With the addition of 6.2 million small farm sector credits during 2013-14, there are 40 million such accounts as on March 31, 2014.

vi) With the addition of 3.8 million small non-farm sector credits during 2013-14, there are 7.4 million such accounts as on March 31, 2014.

vii) Nearly 328 million transactions were carried out in BC-ICT accounts during the last year as compared to 250 million transactions during 2012-13.

IV.15 Though, the number of BC-ICT transactions has shown a considerable increase during the last year the average transaction per account still remains low. The focus of monitoring is now more on usage of these accounts through issue of more credit products through the channel. The Reserve Bank also issued guidelines to strengthen the BC model (Box IV.1).

Box IV.1
Guidelines for Strengthening the BC Model

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the Reserve Bank permitted banks to utilise the services of intermediaries in providing financial and banking services through the use of business correspondents (BCs).

As reported by the banks under their financial inclusion plans nearly 2,48,000 BC agents had been deployed by banks as on March 31, 2014 which are providing services through more than 3,33,000 BC outlets. Nearly 117 million basic saving bank deposit accounts (BSBDAs) opened through BCs remained outstanding as on March 31, 2014. Though the number of BC-ICT transactions showed considerable increase, it was observed that the increase in the volume of transactions was not commensurate with the increase in the number of BCs engaged and the accounts opened through them. A review of the BC model highlighted that the cash management system followed by the banks for BC operations was one of the major impediments in the scaling up of the BC model.

In order to facilitate the scaling up of the BC model, the Reserve Bank recently issued the guidelines asking bank boards to: (i) review the operations of BCs at least once every six months with a view to ensuring that the requirement of pre-funding of corporate BCs and BC agents should progressively taper down; and (ii) review the remunerations of BCs and lay down a system of monitoring by the top management of the bank. It also directed that the cash handled by BCs be treated as the bank's cash and the responsibility for insuring this cash should rest with the bank.

FINANCIAL LITERACY

Reserve Bank up-scales financial literacy activities

IV.16 The overall objective of the Reserve Bank's financial literacy strategy is to achieve financial inclusion by creating awareness about the formal financial system. The Reserve Bank's financial literacy efforts are channelled through banks in the form of a mass scale literacy campaign which includes conducting financial literacy camps in unbanked locations. For this purpose, all the financial literacy centres (FLCs) and rural branches of SCBs are advised to undertake financial literacy activities in the form of awareness camps at least once a month. For this, the Reserve Bank has devised model architecture for conducting the financial literacy camps in three stages starting with generating awareness in the first stage, account opening in the second stage and monitoring the usage of accounts in the third stage. In order to ensure consistency in the messages reaching the target audience of financially excluded people by the FLCs, the Reserve Bank has issued comprehensive financial literacy material consisting of a Financial Literacy Guide, a Financial Diary and a set of 16 posters which is now available in 13 languages. The Reserve Bank has advised all banks including RRBs to use the financial literacy material as standard curriculum to impart basic conceptual understanding of financial products and services.

IV.17 A review of the progress made by FLCs reveals that 514 FLCs were added during 2012-14 taking the total number of FLCs from 428 as at end of March 2012 to 942 as at end March 2014 (Table IV.8). These FLCs are creating awareness about banking products and services through indoor and outdoor activities.

Table IV.8: Activities Undertaken by Financial Literacy Centres

Particulars	During year ended March 2013	During year ended March 2014
1	2	3
No. of Outdoor Activities conducted	40,838	56,985
Outdoor activities- No. of persons participated	1,733,198	3,178,425
Indoor activities- No. of persons participated	483,980	647,643
Total No. of persons participated - Outdoor & Indoor activities	**2,217,178**	**3,826,068**

IV.18 In order to assess the efficacy of the activities conducted by FLCs, a quick study was conducted in October 2013 on the impact of their awareness programmes. The study was spread across 46 districts in 23 states; 730 participants who had attended financial literacy camps during the last year were interviewed. The findings of the study revealed that almost all the participants (99 per cent) had got linked to the formal banking system with a saving account (89 per cent) being the most used banking product and 44 per cent of the participants had availed of credit products. Remittances and direct benefit transfer (DBT) were the least used (20 per cent) products. Based on the findings, banks have been advised to create awareness about various products and services available so as to increase their usage.

IV.19 The National Centre for Financial Education (NCFE) has been set up for implementing the National Strategy for Financial Education which has been prepared under the aegis of the Financial Stability and Development Council (FSDC). NCFE will create standard financial education material that can be accessed through its website (www.ncfeindia.org). Literacy material prepared by the Reserve Bank has also been placed on this website.

Recommendations of Committee on Comprehensive Financial Services for Small Businesses and Low Income Households

IV.20 The committee (Chair: Dr Nachiket Mor) was set up by the Reserve Bank to enhance financial inclusion and deepening. The Committee laid down the following vision as part of its recommendations: (i) Universal Electronic Bank

Account (UEBA) for all Indians above the age of 18, (ii) ubiquitous access to payment services and deposit products at reasonable charges, (iii) sufficient access to affordable formal credit, (iv) universal access to a range of deposit and investment products at reasonable charges, (v) universal access to a range of insurance and risk management products at reasonable charges, and (vi) right to suitability. The main recommendations are listed in Box IV.2.

Box IV.2
Recommendations of the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households

Promoting financial inclusion and enhancing financial depth are among the key developmental agendas of the Reserve Bank. Despite various efforts channelled to achieving these goals through cooperative banks, nationalisation of banks, self-help groups, regional rural banks, or business correspondents, the success has been limited and progress uneven on a regional and sectoral basis. With a view to reviewing the existing strategies for achieving financial inclusion; designing principles to develop institutional frameworks and regulation; and developing a comprehensive monitoring framework to track the progress made, the Reserve Bank in September 2013, set up a Committee on Comprehensive Financial Services for Small Business and Low Income Households (Chair: Dr Nachiket Mor) which submitted its report in January 2014.

The report observed that nearly 90 per cent of small businesses had no links with formal financial institutions while 60 per cent of the rural and urban population did not have a functional bank account, and much of the credit needs of the economy came from the informal sector. Difficulties of access and absence of a positive real return on financial savings had accelerated the move away from financial assets to physical assets and unregulated providers. This indicates a visible demand for a wide range of financial services by small businesses and low-income households. Concerted efforts are needed to ensure the achievement of several key goals such as universal access to a bank account; a ubiquitous payments infrastructure; and a base level access to all the other financial products such as credit and insurance within a relatively short period of time.

Against this backdrop, the major recommendations of the committee relating to banks include:

- Providing a universal bank account to all Indians (over 18 years) by January 1, 2016.
- Vertically differentiated banking system with payments banks for deposits and payments and wholesale banks for credit outreach with relaxed entry point norms of ₹0.5 billion.
- Adjusted priority sector lending target of 50 per cent against the current 40 per cent with sectoral and regional weights based on the level of difficulty in lending.
- Transfer of risks and liquidity through markets and strengthening the internal risk assessment capabilities of key refinance institutions.
- Differential provisioning norms for each asset class and public disclosure of stress tests by banks.

Major recommendations of the committee relating to non banks financial companies (NBFCs) include:

- Consolidation of multiple NBFC definitions into two categories: (i) core investment companies (CICs) and (ii) all other NBFCs.
- Restoring permission for non-deposit accepting NBFCs (NBFC-NDs) to act as business correspondents (BCs) of a bank based on the operational criterion chosen by the bank.
- Partial convergence of NBFC and bank regulations with regard to non performing assets (NPA) norms, provisioning for standard assets and inclusion under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI).
- Clear framework to address wholesale funding constraints of NBFCs to be developed by the Reserve Bank and Securities Exchange Board of India (SEBI) involving guidelines for qualified institutional buyers (QIBs) and accredited individual investors permitting external commercial borrowings (ECBs) in Indian rupees (INR) for all institutions and for linking the eligibility for ECB in other currencies to size and capacity to absorb

(Contd....)

foreign exchange risk instead of to specific NBFC categories.

- Putting in place better on-going risk measures with proper disclosure of stress test results and adoption of core banking solution (CBS), besides better off-site supervision.
- The total borrowing limit for the small borrower segment to be increased to ₹0.1 million across all lenders, including bank-lending to this segment.
- To set up a new category of institutions called wholesale banks and permit NBFCs to transition into wholesale consumer banks or wholesale investment banks with access only to wholesale (not retail) deposits subject to monitoring and reporting requirements. An active market for priority sector lending (PSL) assets is to be created so that banks and NBFCs can actively trade PSL assets between themselves.
- Creation of State Finance Regulatory Commission (SFRC) by merging existing state government-level regulators and adding functions like the regulation of NGO-MFIs and local money services business.

Draft guidelines for “Licensing of Payments Banks” and “Licensing of Small Banks” have been since issued in July 2014 for furthering financial inclusion. Small banks will provide basic banking products such as deposits and supply of credit, but in a limited area of operation. Payments banks will leverage on technology and provide a limited range of products such as acceptance of demand deposits and remittances of funds with a widespread network of access points particularly in remote areas.