IV CREDIT DELIVERY AND FINANCIAL INCLUSION

Financial inclusion is a flagship programme of the Reserve Bank. Its objective is to bring people, hitherto excluded, under the ambit of formal financial institutions. To push towards universal financial inclusion, the Reserve Bank has taken several initiatives. These include advising banks on devising their Financial Inclusion Plan and constituting a Financial Inclusion Advisory Committee (FIAC). The Committee (Chairman: Dr. K.C. Chakrabarty) is helping banks develop a viable and sustainable model of banking services that focuses on accessible and affordable financial services. To sensitise financially illiterate people, financial literacy programmes have been initiated by the Reserve Bank in collaboration with commercial banks. Opening multiple channels of credit delivery is expected to improve access to institutional credit for excluded people, which, in turn, may help bring them within the ambit of the growth process.

IV.1 The Reserve Bank has taken steps to intensify the credit delivery mechanism and financial inclusion by changing the guidelines for priority sector lending and trying to bring excluded people, both rural and urban, under the coverage of institutional finance. It is now an established fact that without access to formal finance at an affordable cost, inclusive growth is not possible. In order to provide credit to the productive sector, which has the potential for employment generation, the Reserve Bank has taken a host of measures including revising the priority sector lending guidelines, which have been in existence since the 1970s. Apart from providing credit under this scheme, the Reserve Bank has adopted a policy of providing credit through multiple channels, *viz.*, involving self-help groups (SHGs) and micro-finance institutions (MFIs), expanding the scope of the business correspondence (BC) model, simplifying procedures and processes for micro and small enterprises (MSEs) and adopting information and communication technology (ICT) solutions for greater outreach and lower transaction costs.

IV.2 This chapter focuses on two aspects of credit delivery, *viz.*, (i) the progress of credit delivery and financial inclusion, and (ii) the Reserve Bank's policy initiatives in these areas. Credit delivery is discussed under three heads: priority sector lending, the lead bank scheme and rural co-operative credit banks.

CREDIT DELIVERY

Priority Sector Lending

IV.3 The priority sector comprises a vast section of the population in sectors such as agriculture, micro and small enterprises (MSEs), education and housing. As on the last reporting Friday of March 2012 and March 31, 2013, the target set for priority sector advances was 40 per cent of the Adjusted Net Bank Credit (ANBC) or credit equivalent of off-balance sheet exposure (OBE), whichever is higher, as on March 31 of the preceding year for domestic banks and 32 per cent for foreign banks. As on March 31, 2013 domestic banks (both public and private) were below the target of priority sector lending (Table IV.1). During this period, 16 of the 26 public sector banks, 10 of the 20 private sector

Table IV.1: Priority Sector Advances

(Amount in ₹ billion)

As on the last reporting Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2012	11,299.93 (37.4)	2,864.19 (39.4)	805.59 (40.9)
2013*	12,822.12 (36.2)	3,274.06 (37.5)	848.54 (35.1)

*As on March 31, 2013

Notes: 1. Figures in parentheses are percentages to ANBC or credit equivalent of OBE, whichever is higher, in the respective groups.

2. Data for the year 2013 are provisional.

banks and 2 of the 41 foreign banks could not achieve the target of overall priority sector lending.

IV.4 Scheduled commercial banks, both domestic and foreign, that fail to achieve the priority sector targets/sub-targets are required to deposit the shortfall to the extent of corpus of funds announced by the Government of India in the Rural Infrastructure Development Fund (RIDF) set up with the National Bank for Agriculture and Rural Development (NABARD) and other funds set up with the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB).

IV.5 During the year 2013-14, RIDF XIX, with a corpus of ₹200 billion, has been set up with NABARD. In addition, the MSME (Refinance) Fund with a corpus of ₹100 billion with SIDBI, the Warehouse Infrastructure Fund with a corpus of ₹50 billion, the Short Term Co-operative Rural Credit (STCRC) (Refinance) Fund with a corpus of ₹300 billion, the Short Term RRB Credit Re-Finance Fund with a corpus of ₹200 billion with NABARD and the Rural Housing Fund with a corpus of ₹60 billion with NHB, have been set up during 2013-14. Another fund, *viz.*, the Urban Housing Fund with a corpus of ₹20 billion has been set up this year with NHB.

Flow of credit to the Agriculture Sector

IV.6 A target of ₹5,750 billion for agriculture credit during the year 2012-13 was fixed by the government. Against this target, banks, including co-operative banks and RRBs, disbursed ₹6,073.75 billion[1], which formed 105.6 per cent of the target as at the end of March 2013. For the year 2012-13, the government fixed a target of ₹7,000 billion for disbursement to agriculture by all agencies.

Recovery of Direct Agriculture Advances

IV.7 The data for the past three years (up to June 2012) indicate a marginal decrease in the recovery of direct agriculture advances during 2011-12 (Table IV.2).

Table IV.2: Recovery of Direct Agriculture Advances

(₹ in billion)

Year ended June	Demand	Recovery	Overdue	Per cent of Recovery to Demand
1	2	3	4	5
2010	1,244	922	322	74.09
2011*	1,822	1,383	439	75.90
2012**	1,918	1,429	489	74.51

* Revised/updated figures furnished for 2011.
** Provisional data.

Kisan Credit Card Scheme

IV.8 Based on the recommendations of the Working Group to review the *Kisan* Credit Card scheme (KCC) (Chairman: Shri T.M. Bhasin), the government advised all banks to issue smart cards to all farmers. During 2012-13 (up to December 2012), public and private sector banks issued 1.2 million smart cards as KCCs.

Interest Subvention Scheme

IV.9 The Interest Subvention Scheme, in operation since 2006-07, currently provides interest subvention of 2 per cent for short-term production credit up to ₹3 lakh. With additional interest subvention of 3 per cent for farmers who repay their loans in time, the effective interest rate comes down to 4 per cent per annum. The scheme, hitherto applicable only to public sector banks, regional rural banks and co-operative banks until 2012-13, has been extended to private sector banks for the year 2013-14.

Agricultural Debt Waiver and Debt Relief Scheme, 2008

IV.10 The Government of India had implemented the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008. Based on the observations in the Performance Audit Report on the scheme carried out by the Comptroller and Auditor General (CAG) and at the instance of the

[1] Provisional

Government of India, banks were advised to undertake a complete verification exercise and take corrective steps.

Flow of credit to Micro, Small and Medium Enterprises

IV.11 Credit to the MSE sector by SCBs registered a growth of 29.8 per cent in 2012-13 over the previous year (Table IV.3).

IV.12 To speed up the process of identifying a unit as sick and detecting incipient sickness and to lay down procedures for banks to adopt before declaring a unit unviable, revised guidelines for the rehabilitation of sick units in the MSE sector were issued on November 1, 2012.

IV.13 In line with the announcement made in the Monetary Policy 2013-14, banks were advised on May 9, 2013 to:

- strengthen their existing systems of monitoring credit growth to the sector and put in place a system-driven comprehensive performance management information system (MIS) at every supervisory level (branch, region, zone, head office), which should be critically evaluated on a regular basis;
- put in place a system of e-tracking of MSE loan applications and monitor the loan application disposal process in banks, giving branch-wise, region-wise, zone-wise and state-wise positions. The position in this regard is to be displayed by banks on their websites; and
- monitor timely rehabilitation of sick MSE units. The progress in rehabilitation of sick MSE units is to be made available on the website of banks.

Table IV.3: Credit to Micro and Small Enterprises by SCBs

As on last Friday of March	Outstanding Credit to MSE sector		MSE credit as per cent of ANBC
	Number of accounts (in million)	Amount outstanding (₹ billion)	
1	2	3	4
2012	9.86 (6.0)	5,276.85 (10.3)	16.5
2013*	11.23 (13.9)	6,847.97 (29.8)	14.7

* : As on March 31, 2013.
Note: 1. Data for 2013 are provisional.
2. Figures in parentheses indicate y-o-y change in per cent.

Lead Bank Scheme

Roadmap for providing banking outlets in villages with population less than 2,000

IV.14 After the completion of the first phase of the roadmap for opening banking outlets in all unbanked villages with a population greater than 2,000, the second phase to provide banking services for unbanked villages with populations less than 2,000 has been rolled out. The objective is to provide a bank account to every household/ person in the country. About 4,90,000 unbanked villages with populations of less than 2,000 have been identified and allotted to various banks for coverage in a time-bound manner. The coverage plan is expected to be completed in the next three years.

IV.15 For financial inclusion 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 villages.

Direct Benefit Transfer

IV.16 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 authorities to implement Aadhaar-enabled payments. Banks were advised to include the status of the rollout of Aadhaar-enabled payments as 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 will be extended to 78 districts from July 1, 2013. Eventually, all districts in the country will be covered under the scheme. The recent introduction of DBT that validates the identity of the beneficiary through Aadhaar will facilitate the delivery of social welfare benefits by directly crediting beneficiaries' bank accounts, ensuring that there are minimum leakages and providing timely delivery of benefits at the doorstep of beneficiaries. To ensure that the DBT becomes an instrument of social change, careful planning and groundwork by all the stakeholders is required. 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 needed in all villages across the country.

IV.17 After the workshop on Direct Benefit Transfer (DBT) held at Mysore on June 28, 2013 to review the progress of Aadhaar-based DBT, banks are further advised to:

- take steps to complete account opening and seeding Aadhaar number in all DBT districts.
- closely monitor the progress in seeding Aadhaar numbers in bank accounts of beneficiaries.
- put in place a system to provide acknowledgement to the beneficiary of the seeding request and also send confirmation of seeding the Aadhaar number.
- form a DBT Implementation Co-ordination Committee, along with concerned state government department at the district level and review the seeding of Aadhaar numbers in bank accounts.
- ensure that district- and village-wise names and other details of BCs/other arrangements made by the bank are displayed on the SLBC website.
- set up a Complaint Grievance Redressal mechanism in each bank and nominate a Complaint Redressal Officer in each district, to redress grievances related to seeding of Aadhaar numbers in bank accounts.`

SLBC – Annual Credit Plan

IV.18 The priority sector guidelines were revised in 2012 and the Statements on the revised reporting system for priority sector lending were made effective from December 2012 for monthly and quarterly statements, and from March 2013 for the yearly statement. To align the Annual Credit Plan (ACP) with the broad classification of priority sectors and since data on the ACP is an important element to review the flow of credit in the states and districts, the ACP Statements have been revised. The ACPs will be prepared with sub-sectors of Agriculture & allied activities, Micro and Small Enterprises, Education, Housing and others under the priority sector and Medium Industries, Large industries, Education, Housing and others in the non-priority sectors. Accordingly, the Statement for the ACP target would be LBS-MIS–I, the Statement for disbursement and outstanding will be LBS-MIS-II and ACP achievement *vis-à-vis* ACP target will be LBS-MIS-III. Banks are advised to review the progress as per these statements at all DCC and SLBC meetings.

Lead Bank Responsibility for districts

IV.19 As on end-March 2013, 644 districts in the country have been assigned lead bank responsibility compared with 630 districts as on end-March 2012. In the nine new districts formed in Chhattisgarh, the State Bank of India, Dena Bank and the Central Bank of India were assigned lead bank responsibility. The State Bank of India was assigned lead bank responsibility in one new district in Arunachal Pradesh, while the United Bank of India was assigned responsibility for four new districts in Tripura.

IV.20 At present, the Lead Bank Scheme (LBS) is applicable to all districts in the country, except districts in metropolitan areas. The Monetary Policy

Statement for 2013-14 announced that the challenge of financial exclusion is also widespread in metropolitan areas, especially among the disadvantaged and low-income groups. To facilitate doorstep banking to the excluded segment of the urban poor and provide an institutional mechanism for co-ordination between the government and banks, it has been decided to bring all districts in metropolitan areas under the LBS. Accordingly, lead bank responsibility has been assigned to 16 districts in metropolitan areas, thus bringing the entire country under the fold of the lead bank scheme and covering a total of 659 districts under the lead bank scheme.

Calendar of DCC/DLRC meetings

IV.21 A review of District Consultative Committee (DCC)/ District-Level Review Committee (DLRC) meetings found that members face difficulties attending these meetings because of late receipt/ non-receipt of intimation about the meetings, clashes with other events, *etc.* Therefore, along the lines of the SLBC, which prepares a calendar of its quarterly meetings at the beginning of the year, lead banks were advised in January 2013 to prepare similar calendars for DCC and DLRC meetings in consultation with the Chairperson of the meetings, public representatives (in the case of the DLRC) and the Lead District Officer of the Reserve Bank.

Rural Co-operatives

Streamlining Short-Term Co-operative Credit Structure

IV.22 After recapitalisation of the three-tier short-term co-operative credit structure (STCCS), 41 District Central Co-operative Banks (DCCBs) that had a high level of financial impairment as of end-March 2012 were unable to meet the licensing criteria. To examine structural constraints and to strengthen the rural co-operative credit architecture with institutions and instruments to meet credit needs, a Working Group to review the Short-Term Co-operative Credit Structure (STCCS) was proposed. Accordingly, the Reserve Bank constituted an Expert Committee in July 2012 (Box IV.1).

FINANCIAL INCLUSION

Financial Inclusion Plans of banks for three years

IV.23 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

Box IV.1
Recommendations of the Expert Committee to examine the Three-Tier Short-Term Rural Co-operative Credit Structure (STCCS)

As per the announcement made in the Monetary Policy Statement for 2012-13, an Expert Committee was constituted (Chairman: Dr. Prakash Bakshi) to review the Short Term Co-operative Credit Structure (STCCS) with a view to reducing the cost of credit and to examine alternatives, including the feasibility of setting up a two-tier STCCS as against the existing three-tier structure. The Committee submitted its report on January 15, 2013.

The major recommendations of the Committee are as under:

i) STCCS, which was primarily constituted for the provision of agricultural credit, must provide at least 15 per cent of the agriculture credit requirements in its operational area, gradually increasing it to at least 30 per cent. CCBs should strive to provide at least 70 per cent of their loan portfolio for agriculture. If an StCB or CCB consistently underperforms and provides less than 15 per cent share of agricultural credit in the operational area, that bank should be declared and treated as an urban co-operative bank.

ii) Deposits of members of PACS are not covered by the DICGC and PACS are not in a position to issue Kisan Credit Cards (KCC) that are transactable/work on ATMs and POS devices since they are not part of the banking system. CCBs should, therefore, provide these services directly by using PACS as their business correspondents (BCs). All depositors and borrowers of PACS, therefore,

(Contd....)

would become normal shareholding members of the CCB with voting rights for all "active" members.

iii) CCBs keep their deposits with StCBs in the form of term deposits for maintenance of their CRR and SLR requirements. However, StCBs lend larger amounts to the same CCBs and also invest in loans, which has generally resulted in higher NPAs. Hence, ways need to be found to keep these investments safe. As a possible measure, StCBs and CCBs may be given a higher share in the food consortium credit.

iv) Of the 370 CCBs in the country, 238 already have a CRAR of 7 per cent or more, and 2/3rd of them would be able to meet the additional capital requirements and sustain CRAR of at least 7 per cent by 2014-15 and of 9 per cent by 2016-17. 209 CCBs will have to mobilise about Rs. 6500 crore by 2016-17 to achieve CRAR of 9 per cent. The Committee has suggested various options for raising additional capital to meet the increased CRAR requirement.

v) Some StCBs and CCBs do not have adequate capital to meet even the relaxed licensing norm of 4 per cent CRAR. March 31, 2013 may be set as the deadline for these banks to mobilise the required capital, either internally or from an external source, so as to achieve 4 per cent CRAR, failing which the Reserve Bank should take necessary regulatory action.

vi) About 58 banks would generally not be able to mobilise the required capital, or their business sizes are so small that they would not be sustainable in the long run and would have to be consolidated with other CCBs. A Working Group may be constituted in each State to work out the details of possible consolidations in dialogue with concerned stakeholders and prepare an action plan.

vii) Most CCBs and StCBs will also have to take concrete steps to improve their internal systems, human resources, and technology adoption. The Committee has also recommended various steps to improve the governance and management in StCBs and CCBs along the lines of the recommendations of the Vaidyanathan Task Force.

viii) The Reserve Bank to modify the banking licence of any CCB to include additional operational areas from which a PACS could work as the BC of a CCB.

ix) 30 September 2013 to be set as the deadline for all StCBs and CCBs to be fully operational on CBS and provide RTGS, NEFT, ATM and POS device-based services.

x) StCBs and CCBs to be fully included in the financial inclusion and EBT drive. Deposits of governments and government agencies to be made in StCBs and CCBs that have achieved 7 per cent CRAR and are on CBS.

xi) CCBs and StCBs to be covered by the Banking Ombudsman or a similar mechanism that may be developed by the Reserve Bank with NABARD.

xii) A Working Group to be set up to make recommendations on the human resources requirements following the transition of StCBs and CCBs to CBS and other ICT platforms.

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 as a parameter in the performance evaluation of their staff. The implementation of these plans was closely monitored by the Reserve Bank on a monthly basis through a quantitative reporting format. The qualitative aspects of the FIPs were monitored through a qualitative report submitted by banks every quarter. Recently, the Reserve Bank has issued guidelines on basic savings bank deposit accounts for financial inclusion (Box IV.2).

IV.24 A snapshot of the progress made by banks under the 3-year FIP (April 2010-March 2013) on key parameters is given below:

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 1300 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

Box IV.2
Guidelines on Basic Savings Bank Deposit Accounts for Financial Inclusion

Banks have been advised to offer a Basic Savings Bank Deposit Account (BSBDA) that will offer the following minimum common facilities to all their customers:

i) The account should be considered a normal banking service available to all.

ii) This account shall not require any minimum balance.

iii) The account will provide an ATM card or ATM-cum-debit card.

iv) Services will include deposit and withdrawal of cash at bank branches as well as ATMs; receipt/ credit of money through electronic payment channels or by means of deposit/ collection of cheques drawn by central/ state government agencies and departments; and

v) While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals.

These facilities will be provided without any charges. Also, no charge will be levied for non-operation/ activation of an inoperative BSBDA.

Banks would be free to evolve other requirements, including the pricing structure for additional value-added services beyond the stipulated basic minimum services on a reasonable and transparent basis that is applied in a non-discriminatory manner.

The BSBDA would be subject to Reserve Bank instructions on Know Your Customer (KYC)/ Anti-Money Laundering (AML) for opening bank accounts, issued from time to time. If the account is opened on the basis of simplified KYC norms, it would be treated as a 'Small Account' and would be subject to the conditions for such accounts.

If a customer has other savings bank deposit accounts in the bank, he/ she will be required to close it within 30 days of opening a BSBDA.

Existing 'no-frills' accounts should be converted to BSBDA.

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.

IV.25 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

IV.26 The first three-year Financial Inclusion Plan of banks for the period 2010-2013 has ended (Table IV.4). 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 very low. To continue the process of ensuring access to banking services to the excluded, banks have been advised 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.

High-Level Financial Inclusion Advisory Committee

IV.27 Given the high priority of the agenda for financial inclusion, moving towards universal

Table IV.4: Financial Inclusion Plan - Summary progress of all banks including RRBs
(Status as on March 31, 2013)

Particulars	Year ended Mar 2010	Year ended Mar 2011	Year ended Mar 2012	Year ended March 2013	Progress April 2010 - March 2013
1	2	3	4	5	6
Banking Outlets in Villages - Branches	33,378	34,811	37,471	40,837	7,459
Banking Outlets in Villages - BCs	34,174	80,802	1,41,136	2,21,341	1,87,167
Banking Outlets in Villages - Other Modes	142	595	3,146	6,276	6,134
Banking Outlets in Villages -TOTAL	67,694	1,16,208	1,81,753	2,68,454	2,00,760
Urban Locations covered through BCs	447	3,771	5,891	27,143	26,696
Basic Savings Bank Deposit A/c through branches (No. in millions)	60.19	73.13	81.20	100.80	40.61
Basic Savings Bank Deposit A/c through branches (Amt. in ₹ billions)	44.33	57.89	109.87	164.69	120.36
Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.27	31.63	57.30	81.27	68.00
Basic Savings Bank Deposit A/c through BCs (Amt. in ₹ billions)	10.69	18.23	10.54	18.22	7.53
BSBDA Total (in millions)	73.45	104.76	138.50	182.06	108.61
BSBDA Total (Amt. in ₹ billions)	55.02	76.12	120.41	182.92	127.90
OD facility availed in Basic Savings Bank Deposit A/c (No. in millions)	0.18	0.61	2.71	3.95	3.77
OD facility availed in Basic Savings Bank Deposit A/c (Amt. in ₹ billions)	0.10	0.26	1.08	1.55	1.45
KCCs - (No. in millions)	24.31	27.11	30.24	33.79	9.48
KCCs - (Amt. in ₹ billions)	1,240.07	1,600.05	2,068.39	2,622.98	1,382.91
GCCs - (No. in millions)	1.39	1.70	2.11	3.63	2.24
GCCs - (Amt. in ₹ billions)	35.11	35.07	41.84	76.34	41.23
ICT A/Cs-BC- Transaction - No. in millions	26.52	84.16	155.87	250.46	490.49
ICT A/Cs-BC- Transactions - Amt. in ₹ billions	6.92	58.00	97.09	233.88	388.97

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 ACTIVITIES

Financial Literacy initiatives

IV.28 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.

Financial Literacy Centres

IV.29 Consequent to the revision in the guidelines on June 6, 2012 for setting up Financial Literacy Centres (FLCs), 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*, *ghostis*, seminars and lectures in a one-year period, from April 2012 to March 2013.

IV.30 The Reserve Bank of India has adopted a planned, structured and integrated approach to achieving financial inclusion through financial literacy. It has advised all FLCs and rural branches of scheduled commercial banks to conduct a minimum of one outdoor financial literacy camp every month. To link the financially excluded segment with the banking system, the Reserve Bank has designed a Model Architecture for conducting the literacy camps, which details the operational modalities so that it culminates in effective financial access for excluded people. To ensure consistency in the messages that reach the target audience during these camps, the Reserve Bank of India has prepared comprehensive financial literacy material that consists of a Financial Literacy Guide,[2] a Financial Diary[3] and a set of 16 posters.[4]

National Strategy for Financial Education (NSFE)

IV.31 The National Strategy for Financial Education (NSFE) has been prepared under the aegis of a Technical Group of the FSDC. The Strategy envisages ways of creating awareness and educating people on access to financial services; informing them about the availability of various types of products and their features; changing attitudes so that knowledge is translated into responsible financial behaviour; and making consumers of financial services understand their rights and obligations.

IV.32 The NSFE will be implemented in a time-frame 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. These measures will be undertaken through various stakeholders including NGOs and civil society, using all available channels of mass communication. As a first step towards increasing financial education, the NSFE envisages conducting a National Survey on Financial Education to provide a holistic assessment of the need for financial education in the country.

IV.33 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.

IV.34 On the whole, intensive efforts are being made and a gamut of measures have been taken to push the financial inclusion agenda. However, the task of universal financial inclusion is colossal. There is a need to intensify efforts in this direction. Also, banks need to develop a more sensitive approach in delivering viable financial inclusion products that may be demanded by the excluded population. It is not enough for the banking system to deliver finance in support of growth. 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.

[2] The *Financial Literacy Guide* explains basic concepts about managing money, the importance of savings, advantages of saving with banks, facilities provided by banks and the benefits of borrowing from banks in a clear manner. This guide is a ready reckoner for trainers involved in financial literacy and financial inclusion.

[3] The Financial Diary has been prepared to enable the target audience to keep a record of their income and expenses, leading to better financial planning and understanding of how they spend.

[4] The set of 16 posters has simple, appealing slogans and visuals for prominent display in camps to communicate messages of money management, savings, borrowings and basic banking products.