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FINANCIAL INCLUSION –STATUS PAPER – INDIA

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PROSPERITY FOR ALL

Financial Inclusion –Status paper – India

Definition of Financial Inclusion

Financial Inclusion is defined as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players.

India's Approach to Financial Inclusion(FI)

Planned and structured Approach

Reserve Bank of India (RBI) and Government of India has accorded high priority to Financial Inclusion. We have followed a planned and structured approach to address the twin issues of demand and supply. We have framed regulations with an objective of providing banking services to 600,000 plus villages and to create an enabling environment for banks to do so. We are furthering financial inclusion in a mission mode through a combination of strategies ranging from relaxation of regulatory guidelines, provision of new products and supportive measures to achieve sustainable and scalable Financial Inclusion.

Bank Led Model- Leveraging Technology

We have adopted a bank- led model for financial inclusion which seeks to leverage on technology. The FI initiatives would have to be Information and Communication Technology (ICT) based and would ride on new delivery models that would need to be developed by the market participants to best suit their requirements. All the scheduled commercial banks are now operating on core banking solutions (CBS) platform which gives anywhere banking facility for the customers and great accessibility

Technology driven- but technology platform neutral

RBI and GoI have adopted a technology driven but technology neutral platform for pursuing financial inclusion objectives. Banks have been advised to develop delivery models which are technology driven but technology neutral for ensuring easy up-scaling and customization as per the banks requirement.

Recent innovations under Financial Inclusion

India has taken various initiatives towards financial inclusion through a combination of strategies ranging from provision of new products, relaxation of regulatory guidelines and other supportive measures to achieve sustainable and scalable financial inclusion. Some of RBI's initiatives are:

Business Correspondent/ Business Facilitator Model

In January 2006, the Reserve Bank permitted banks to utilise the services of non-governmental organizations (NGOs), micro-finance institutions (other than Non-Banking Financial Companies) and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models with an objective of solving the list mile connectivity.

RBI at regular interval has taken various initiatives helping scaling of the model and enabling them to serve the people more efficiently. Banks were asked to connect these BCs with their Core Banking Solutions and work out offline solutions in case of connectivity issues in some of the geographies in the countries. Banks have also been advised to ensure that equipment and technology used by BCs are of high standards and they monitor BC activities at regular intervals to resolve all the issues faced by this particular delivery channel. Interoperability of BCs at the retail outlets or sub agents of BCs has been permitted provided the transactions are carried out on-line, on core banking solutions. While the RBI has stipulated the the kind of people/organisations that can be retained as BCs, that list of eligible individuals/entities is being widened from time to time. In September 2010, 'for-profit companies' too were included on this list. Initiatives have also been taken up to scale the model by advising banks to address the cash management and remuneration related issues of BCs.

Simplified branch authorisation

The RBI has considerably relaxed the branch opening norms for banks. Branch authorisation has been relaxed to the extent that banks do not require prior permission to open branches in centres with population less than 1 lakh, they have only to report having done so. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres. To further encourage the banks towards 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 Financial Inclusion Plans. This is expected to facilitate quicker branch expansion in unbanked rural centres.

Combination of Branch and BC Structure to deliver Financial Inclusion- ICT Based Accounts

The idea is to have a combination of Brick and Mortar structure which will be helpful in extending financial inclusion especially in geographically dispersed areas. In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.
Under the BC Model, by and large, two major models have evolved.

i.Corporate BCs

In the first model the banks have engaged a Corporate BC either for the country as a whole or have a contract with a Corporate BC for a particular region. Under this model the Corporate BC is entrusted with the responsibility of hiring B.C. Agents and to pay remuneration to the agents for the job undertaken. The bank pays the amount due to the Corporate BC, without getting involved in the payments due to the B.C. Agents.

ii.Individual BCs

In the second model, the banks on their own appoint individual BCs for a village or for a set of villages to be serviced by the said BC. Under this model the bank is entirely responsible to hire the BC on contract and pay remuneration directly on mutually agreed terms.
Banks have largely adopted the Corporate BC model to avoid the intricacies of hiring agents directly. The Corporate BC model has brought about specialization and effectiveness.

Opening of Basic Saving Bank Deposit Accounts (No-frills accounts):

Banks have been advised to make available Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with zero minimum balance and facility of ATM card/Debit card. Existing impediments of minimum balance maintenance, bank charges, etc. are being addressed through the same. With this it has become a right for every eligible Indian citizen to open basic savings account with banks. Further, banks have also been advised to provide in-built overdrafts in such basic savings accounts so as to meet the emergency credit needs of the customer and prevent them from having to approach money lenders in distress situation. The entrepreneurial credit has also been simplified in the form of KCC for farm sector household and GCC for non-farm sector households.

Relaxing KYC norms:

One of the major constraints faced by the people in getting linked to the formal banking system was the strict Know Your Customer (KYC) norms. To facilitate easy opening of accounts especially for small customers, the KYC guidelines have been simplified so that these accounts can be opened by means of self-certifi cation in the presence of bank offi cials. Further, in order to leverage upon the initiative of unique identification development authority of India (UIDAI), RBI has recently allowed 'Aadhaar', the unique identification number (more than 700 million people have been issued) to be used as one of the eligible documents for meeting the KYC requirement for opening a bank account. Very recently, the RBI has also allowed banks to use the E-Aadhaar facility provided by UIDAI for KYC purposes.

Bouquet of financial products and services

In order to achieve the ultimate objective of ensuring financial access across rural and poor India, financial inclusion has to become a viable business proposition for banks. For this to happen, the delivery model needs to be devised carefully so as to move from a cost-centric model to a revenue generation model. This will help in providing customers with quality banking services at their doorsteps while also generating business opportunities for the banks. This is sustainable only if delivery of banking services, at the minimum, includes the following four products:

- A savings-cum-overdraft product
- A remittance product for electronic benefits transfer (EBT) and other remittances
- A pure savings product; ideally a recurring deposit scheme
- Entrepreneurial credit in the form of a Kisan Credit Card (KCC)/General Credit Card (GCC)

Pricing of advances has been freed: Banks have been provided the freedom to decide the pricing of loans given to customers. This will help in ensuring the economic viability of banks' Financial Inclusion initiatives.

Financial Literacy as a facilitator to Financial Inclusion

As financial markets are becoming increasingly complex with serious problems of information asymmetry, the need for financial literacy and education has become even more acute. Further, in a country like India, it is necessary to reach out to the vast majority of illiterate people and to all those who can communicate only in regional languages. Recognising the importance of financial literacy as the stepping stone towards financial inclusion, the Reserve Bank has taken several steps in recent times in promoting financial literacy. 'Project Financial Literacy' aims at disseminating information regarding the central bank and general banking concepts to various target groups (which include school- and college-going children and the rural/urban poor.

Building a Robust Institutional mechanism for FI

There is a robust institutional mechanism that has been put in place for ensuring success of financial inclusion across the country.

i. The Financial Stability and Development Council (FSDC) headed by the Finance Minister is at the apex. Under the aegis of the FSDC, we have a Sub-Group of FSDC headed by the Governor, RBI and within that is a Technical Group, headed by a Deputy Governor, the RBI exclusively mandated to focus on financial inclusion and financial literacy. The membership of these groups comprises of representatives of all financial sector regulators, which makes the structure of the group very strong.

ii. In order to gauge the performance of banks and to continuously review the various models adopted under Financial Inclusion, the RBI has constituted a Financial Inclusion Advisory Committee (FIAC), headed by a Deputy Governor from the RBI, which has members comprising of few Directors from the Central Board of the RBI as also experts drawn from various NGOs/other civil society representatives, etc. The collective expertise and experience of these members is expected to be leveraged towards developing viable and sustainable banking services delivery models for meeting the objective of total financial inclusion.

iii. Further, we also leverage upon the infrastructure created at the state level, wherein we have the State Level Bankers Committee (SLBC) at the Apex which is ably supported by the Lead District Managers (LDMs) at the District level.

iv. In order to ensure that the initiatives on the supply side are ably supported by initiatives on the demand side, we have around 942 financial literacy centres set up by banks. Banks have been advised to educate, train and counsel people in the rural areas regarding the benefi ts of getting linked to the mainstream financial system and also to take all out efforts to ensure that such people get converted into long term customers of the banks.

Constitution of Financial Advisory Committee

RBI has accorded a high priority to the agenda of Financial Inclusion. Moving towards Universal Financial Inclusion has been a national commitment as well as a policy priority for RBI. In order to spearhead efforts towards greater financial inclusion, RBI has constituted a Financial Inclusion Advisory Committee (FIAC) under the Chairmanship of a Deputy Governor from RBI. The FIAC has few Directors from the Central Board of RBI and experts drawn from NGO sector/other civil society representatives, etc. as members.

Roadmap for providing banking services in unbanked villages:

Banks were advised to draw up a roadmap to provide banking services in every unbanked village having a population of over 2000, by March 2012. RBI advised banks that such banking services need not necessarily be extended through brick and mortar branches but could also be provided ICT- based models. About 74,000 such unbanked villages were identified and allotted to various banks through the State Level Bankers' Committees (SLBC), out of which banking outlets have already been opened in 42,079.

Leveraging the banking network for extending social benefits - Direct Benefit Transfers

The recent introduction of direct benefit transfer validating the identity of the beneficiary through Aadhaar will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans of routing all social security payments through the banking network using the Aadhaar based platform as a unique financial address for transferring financial benefits to the accounts of beneficiaries. Besides providing timely delivery of benefits at the door step of beneficiaries, it would also save Government the administrative cost involved in delivering cash to the intended beneficiaries and help minimize the chances of leakages in the system. Banks have been advised to proactively take steps to open bank accounts for all eligible individuals and seed these accounts with Aadhaar numbers for ensuring smooth flow of the social security benefits through the banking channel.

The Aadhaar Enabled Payment Systems (AEPS) architecture designed by National Payments Corporation of India (NPCI) is a platform which banks can leverage upon for expanding their FI initiatives. The AEPS supports 'ON-US' and 'OFF-US' transactions to be initiated by BCs through Micro ATMs. The basic premise of AEPS is that one BC Customer Service Point will have the ability to service customers of many banks. 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 to perform basic banking transactions like balance enquiry, cash withdrawal and deposit through a BC.

Making FI a Viable Business Model - Financial Inclusion Plan of banks

Contrary to this common perception, we have realized that financial inclusion is a potentially viable business proposition because of the huge untapped market that it seeks to bring into the fold of banking services. We have advised banks that Financial Inclusion needs to be viewed as "money at the bottom of the pyramid". What banks need to do is to develop an appropriate business and delivery model in line with its business strategy and comparative advantage and align the same to its business plan. This will create an environment of competitiveness amongst banks which will benefit the unbanked population.

In this direction RBI has 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. The impact assessment further helps in initiating policies and removing barriers to Financial Inclusion.

Achievements so far

A brief of the performance of banks under FIP up to March 31, 2014 is:

i. The number of banking outlets in villages has gone up to nearly 384,000. Out of these, 115,350 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. 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.
vi. Nearly 328 million transactions were carried out in BC-ICT accounts during the last year as compared to 250 million transactions during 2012-13.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

Pradhan Mantri Jan Dhan Yojana has been announced recently to further Financial Inclusion in India. The scheme has been launched with the objectives of providing universal access to banking facilities, providing basic banking accounts with overdraft facility and RuPay Debit card to all households, Financial literacy programs, creation of credit guarantee fund, micro-insurance and unorganized sector pension schemes. The objectives are expected to be achieved in two phases over a period of four years up to August 2018.

Under the scheme, technological innovations like RuPay card and mobile banking would be made use of. Banks will use the RBI's scheme for subsidy on rural ATMs and UIDAI's scheme for subsidy on micro ATMs to augment their resources at the village level.

Way forward-

Innovation

Business models should be designed to be at least self-supporting in the initial phase and profit-making in the long run, with an unwavering focus on affordability.

Banks have to think and act differently and make themselves more flexible so as to meet even the smallest requirements of the rural population. Banks need to move from a cost centric model to a revenue generating model by offering a bouquet of deposit, credit and other products and services The products and services should be designed in such a way that it suits the needs of people in unbanked rural areas.

BC Model

There are many challenges being faced while implementing BC model. 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.

Transactions

During the first phase of our FI initiative, we have had success as regards opening of banking outlets by banks and also in opening bank accounts for large number of individuals 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. Banks have been advised to leverage upon the Direct Benefit Transfer initiative of the Government of India for linking all the individuals to the banking system and for utilizing the large amounts likely to be credited in these accounts for encouraging issue of deposit and credit products.

Collaborated efforts

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.