

## *Financial Inclusion – Past, Present and Future\**

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I wish to thank the organisers of the Economic Times Financial Inclusion Summit for inviting me to address this august gathering. Financial inclusion is a key driver of sustained and balanced economic growth which helps reduce income inequality and poverty. While we have made tremendous strides in this area over the years, the pandemic has created new challenges and complexities. The financial system will have a crucial role to fulfil the aspirations and needs of our economy on the mend. It is therefore befitting that a summit to deliberate on financial inclusion is being organised at this juncture and I commend the organisers for the same.

2. The overarching principle behind India's journey towards financial inclusion is echoed in the *Gandhian philosophy*: "*Sarvodaya through Antyodaya – Welfare of all through the upliftment of the weakest*". The focus is on the basic objectives of 'inclusiveness' and 'equity', which go beyond poverty alleviation. It also encompasses equality of opportunity for all sections of society including the poor, women, farmers, small enterprises, and others. The policy makers in India – Government of India and the Reserve Bank of India – acknowledged the importance of financial inclusion early and have taken a number of measures to ensure that the benefits of economic growth percolate down to the poor and excluded sections of the society.

3. I am sure this forum today will deliberate on the emerging risks, new models of innovative and disruptive technologies and areas of possible policy interventions. In my address today, I thought it may

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be apt to look at how far we have travelled on the path of financial inclusion and dwell upon the way ahead. While assessing the progress made in this sphere across the dimensions of *Access, Usage and Quality*, it is observed that India has come a long way in facilitating access to banking services to the last mile and in increasing the usage of financial products. Taking this forward, the National Strategy for Financial Inclusion 2019-2024 (NSFI)<sup>1</sup> and National Strategy for Financial Education 2020-2025<sup>2</sup> (NSFE) provide a road map for a coordinated approach towards financial inclusion, financial literacy and consumer protection. The National Strategy for Financial Inclusion document lays down several milestones and action plans to be implemented in order to make financial services available, accessible, and affordable to all citizens in a safe and transparent manner to support inclusive growth through a multi-stakeholder approach.

### **Developments so far**

4. Financial Inclusion journey of the country can be traced back to the 1950s when the focus was on channelizing of credit to the neglected sectors of the economy and weaker sections of the population. This was followed by various initiatives over the years such as expansion of branch network, introduction of Priority Sector Lending(PSL), launch of Lead Bank Scheme, promotion of Self Help Groups(SHG), Joint Liability Groups (JLGs), implementation of Business Correspondents (BC) model, among others. The brick and mortar branches, complemented by the BC model, have improved the reach of the banking system across the country. The spread and reach of financial inclusion has indeed been exponential in recent years.

5. The evolution and adoption of technology has led to massive improvement in deepening of digital

<sup>1</sup> <https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1154>

<sup>2</sup> <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1156>

financial services. The Jan Dhan, Aadhaar and Mobile (JAM) eco system has brought about a major shift in the universe of financial inclusion. Further, several initiatives have been taken for the creation of enabling digital infrastructure at the ground level so as to universalise digital payments in a convenient, safe, secure and affordable manner. Given the latent potential of harnessing value at the bottom of the pyramid, we have seen a plethora of players emerging in the field, ranging from traditional banks, niche financial entities such as payments banks, small finance banks, micro finance institutions (MFIs) and promising fintech companies.

6. In order to have a planned and structured approach to financial inclusion, banks have been advised by RBI to put in place financial inclusion plans (FIPs) consisting of achievements against several parameters<sup>3</sup>. Substantial progress has been made with respect to these parameters, details of which are given in the Reserve Bank's *Annual Report* released in May 2021.

7. Greater focus is now being given to addressing the vulnerable segments of the economy and population, while paying attention to consumer protection and enhancing capacity of customers, so that responsible and sustainable use of financial services can be achieved. The introduction of differentiated banks catering to the unique needs of varied population groups was a step in that direction. In the recent past, the challenges that have engaged our attention are (i) how to identify the

8. The digital ID (Aadhaar) along with the proliferation of mobile phones with world class payment systems have addressed the first two challenges of access and

<sup>3</sup> These parameters include the number of outlets (branches and BCs), basic savings bank deposit accounts (BSBDAs), overdraft facilities availed in these accounts, transactions in kisan credit cards (KCCs) and general credit cards (GCCs) and transactions through the business correspondents – information and communication technology (BC-ICT) channel. customer; (ii) how to reach the last mile; and (iii) how to provide relevant products which are affordable and safe catering to diverse needs.

usage to a large extent. The third challenge i.e. quality requires both demand and supply side interventions. Opening of Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts has enabled millions of Indians to have access to financial services, with a basic bouquet of financial products. This has addressed the supply side issue to a considerable extent. The demand side interventions focused on creating awareness amongst the public. Financial literacy, customer protection and grievance redressal have become areas of focus for furthering sustainable financial inclusion. Setting up of National Centre for Financial Education (NCFE) by the Regulators and implementation of the Centre for Financial Literacy (CFL) project of RBI are two recent initiatives towards improving financial literacy.

9. Payment systems are seen to be lifeline of an economy. They are increasingly being recognised as a means of achieving financial inclusion and ensuring that economic benefits reach the bottom of the pyramid. It is quite well known by now that India is among the leaders in the world with regard to development of state-of-the-art payment infrastructure and products leading to a wider adoption of digital payments. To give an example, the number of Prepaid Payment Instruments (PPI)<sup>4</sup> increased at a compounded annual growth rate (CAGR) of 53 per cent from 41 crore in May 2017 to 226 crore in May 2021. The trends indicate that such instruments have become immensely popular for making small value payments.

10. The movement towards digital payments has also been facilitated by the introduction of fast payment systems, such as Immediate Payment Service (IMPS) and Unified Payment Interface (UPI), which provide immediate credit to beneficiaries and are available round the clock. The extent of digital penetration can be gauged from the fact that, each day on an average during June 2021, the payment systems in

<sup>4</sup> As at May 2021, 91% of PPIs was in the form of Wallets and the rest in the form of Cards.

India processed more than 15 crore transactions amounting to nearly ₹4.5 lakh crore per day. The UPI platform facilitating payment transactions through smartphones has revolutionised the payment landscape in India. UPI has witnessed over 280 crore transactions in June 2021. Globally, there has been lot of interest in UPI. Similarly, the Aadhaar enabled Payments System (AePS) facilitates fund transfers/ payments and cash withdrawals through micro-ATMs and BCs using Aadhaar authentication. During the pandemic, cash transactions at BC outlets through micro-ATMs have witnessed significant surge with more than 94 crore transactions accounting for ₹2.25 lakh crore<sup>5</sup> during 2020-21.

### Response to the Pandemic

11. In India, the second wave of the pandemic has taken a grievous toll both in terms of lives and livelihood. The recovery that had commenced in the second half of 2020-21 was dented by the second wave of the pandemic in April-May 2021. Our efforts towards financial inclusion, have helped in enabling the Government to provide seamless and timely financial support to vulnerable sections through direct benefit transfers (DBT).

12. One of the important components of the JAM trinity, Aadhaar, the world's largest initiative to provide biometric identity has facilitated financial inclusion through innovative digital platforms. The NACH- Aadhaar Payments Bridge (APB) System and PMJDY together have been instrumental in enabling an effective usage of available banking facilities, which came to the fore during the pandemic, with cash benefits under Pradhan Mantri Garib Kalyan Yojana being disbursed to these accounts. As on date there are about 42.59 crore<sup>6</sup> PMJDY account holders with more than 55 per cent account holders being women.

<sup>5</sup> [https://m.rbi.org.in/Scripts/BS\\_ViewBulletin.aspx?Id=20366](https://m.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=20366) – FY 2020-21

<sup>6</sup> <https://pmjdy.gov.in/>

The impact of the digital payment in DBT can be discerned from the fact that ₹5.53 lakh crore was transferred digitally across 319 government schemes spread over 54 ministries during 2020-21.

13. To mitigate the financial impact of COVID-19 related disruptions, the Reserve Bank has taken several policy measures to ease flow of credit at a lower cost to needy segments. These measures include lowering of policy rate, launching of on-tap liquidity schemes and channelising of liquidity through All India Financial Institutions and facilitating financial institutions to resolve stressed loans to individuals, small business and MSMEs. Cash Reserve Ratio (CRR) exemption on credit disbursements to new MSME borrowers; PSL classification for bank loans to NBFCs for on-lending and PSL classification for loans from small finance banks (SFBs) to micro finance institutions (MFIs) for on-lending were additional measures taken to promote credit flow to affected sectors. Further, with an objective to provide more focus on inclusive development, the Reserve Bank last year broadened the scope of PSL by (a) including start-ups; (b) enhanced the limits for lending to renewable energy sector; (c) increased the targets for small and marginal farmers and weaker sections; and (d) incentivised banks to augment credit flows to districts with relatively lower credit penetration.

14. The pandemic has accelerated the push towards digitalisation with greater adoption of digital payments. It is important to take steps to converge greater digitalisation with goals of financial inclusion. Operationalisation of Payment Infrastructure Development Fund (PIDF) – an initiative of RBI together with banks and card networks – will provide the necessary impetus for development of payment acceptance infrastructure in tier-3 to tier-6 centres and north eastern states. This will facilitate greater deployment of electronic payment acceptance facilities (for example point of sale devices) in hitherto untapped areas, thereby furthering the reach of digital payments ecosystem.

15. Similarly, the Reserve Bank's pilot project in association with banks of making at least one district in each State/UT 100 per cent digitally enabled, which was rolled out in 2019, covering 42 districts, will facilitate greater access and usage of digital payments by the common man. As on March 2021, banks have achieved a digital coverage<sup>7</sup> of 95.9 per cent of individuals while the achievement for businesses stood at 89.8 per cent. The SLBCs have been advised to give renewed focus and emphasis to ensure sustenance of the digital progress in these identified districts. Further, in order to promote 'universal access to financial services' under the NSFI, access to some form of banking outlet has been provided to 99.9 per cent of the targeted villages within a 5 KM radius/hamlets with 500 households in hilly areas.

16. The pandemic related restrictions on mass gathering of people at various public places has necessitated a relook at conventional financial literacy camps. During the pandemic period, enhanced recourse to alternative approaches like using social media, mass media (including local TV channels and radio), was undertaken across the country to continue dissemination of financial education.

### **Post Pandemic World: The Way Forward**

17. In order to make the post-pandemic recovery more inclusive and sustainable, financial inclusion would continue to be our policy priority. Considering the complementary role played by microfinance in bridging the gaps at the last mile, a consultative document for harmonising the regulatory frameworks for various regulated lenders in the microfinance space has been issued recently. The primary objective is to address the concerns relating to over-indebtedness of microfinance borrowers; enable market mechanism

to rationalise the interest rates; and empower the borrowers to make an informed decision by enhancing transparency of loan pricing.

18. The scaling up of Centre for Financial Literacy (CFL) project across the country at the block level by March 2024 is expected to enhance the effectiveness of community-led participatory approaches for greater financial literacy. Further, recognising the importance of inculcating financial literacy concepts at a young age, one of the strategic goals of the National Strategy for Financial Education 2020-2025 (NSFE) is integrating financial literacy content in the curriculum for school children. So far 15 state educational boards have included modules on financial education in their school curriculum. These approaches are expected to strengthen financial education at the grass-roots level so as to realise the vision of creating a financially aware and empowered India as enunciated in the NSFE.

19. To measure the extent of financial inclusion in the country, it has been decided to construct and periodically publish a "Financial Inclusion Index" (FI Index). The Index will have parameters across the three dimensions of financial inclusion *viz.*, Access, Usage and Quality. Work on FI Index is underway and the Index will be published shortly by the RBI.

### **Conclusion**

20. As I conclude, I would like to reiterate that financial inclusion promotes inclusive growth by way of making financial services including credit and other safety nets available to the bottom of the pyramid. Lessons from the past and experiences gained during the COVID-19 pandemic clearly indicate that financial inclusion and inclusive growth reinforce financial stability. Greater financial literacy and education, together with sound consumer protection mechanisms will ensure that people at the bottom of the pyramid are empowered to take informed financial decisions. This will also enable banks, NBFCs, MFIs,

<sup>7</sup> Digitally enabled/covered individuals and businesses have been arrived at by considering eligible operative savings accounts and eligible operative current/business accounts covered with at least one of the digital payment modes (ATM/ Debit cards, Net banking, Mobile banking, AEPS, UPI/ USSD, POS, QR).

etc. to enhance their customer base and products and diversify their balance sheet.

21. I would like to emphasise that we must continue our efforts for greater financial inclusion in pursuance of the goal of sustainable future for all. There is need for accelerated universal reach of bank accounts along with access to financial products relating to credit, investment, insurance and pension. It is the responsibility of all stakeholders to ensure that the financial ecosystem (including the digital medium)

is inclusive and capable of effectively addressing risks like mis-selling, cyber security, data privacy and promoting trust in the financial system through appropriate financial education and awareness. These efforts have to be supported by a robust grievance redressal mechanism. I look forward to interesting ideas and thoughts emanating from this forum which would enhance the process of financial inclusion in the country.

Thank you. Namskar.