



FINANCIAL INCLUSION



Dr. K.C. Chakrabarty
Deputy Governor
Reserve Bank of India

St. Xavier's College
September 6, 2011



Extent of Financial Exclusion -Global

- 2.5 billion adults, just over half of world's adult population, do not use formal financial services to save or borrow.
- 2.2 billion of these unserved adults live in Africa, Asia, Latin America, and the Middle East.
- Of the 1.2 billion adults who use formal financial services in Africa, Asia, and the Middle East, at least two-thirds, a little more than 800 million, live on less than \$5 per day.

Not an India specific problem but a global one.



Extent of Financial Exclusion -India

- In India, almost half the country is unbanked.
- Only 55 per cent of the population have deposit accounts and 9 per cent have credit accounts with banks.
- India has the highest number of households (145 million) excluded from Banking.
- There was only one bank branch per 14,000 people.
- 6 lakh villages in India, rural branches of SCBs including RRBs number 33,495.
- Only a little less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage.
- Just 18 per cent had debit cards and less than 2 per cent had credit cards.

Exclusion is staggering whichever parameter one chooses to look at !



Definition of Financial Inclusion

Financial Inclusion is 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.*

In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy.

In emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency.

Financial Inclusion – Steps Taken in the Past



- * Co-operative Movement
 - * Setting up of State Bank of India
 - * Nationalisation of banks

 - * Lead Bank Scheme
 - * RRBs
 - * Service Area Approach
 - * Self Help Groups
- Still We Failed!
- Why?

Financial Exclusion – Why did We Fail?



- * Absence of Banking Technology
- * Absence of Reach and Coverage
- * Absence of Viable Delivery Mechanism
- * Not having a Business Model
- * Rich have no compassion for poor

Why Are We Talking of Financial Exclusion Now?



- * Focus on Inclusive Growth
- * Banking Technology has arrived
- * Realisation that Poor is bankable

The Indian Way- Multi Agency Approach



- ❖ Financial Stability and Development Council (FSDC) mandated to focus on Financial Inclusion and Financial Literacy
- ❖ Financial Sector Regulators including the Reserve Bank committed to FI Mission
- ❖ Financial Inclusion is a mammoth task- financial services through mainstream financial institutions to 6 lakh villages

It is possible !!!!!



What has been done so far

- ❖ ICT based Business Correspondent (BC) Model for low cost door step banking services in remote villages .
- ❖ Board approved Financial Inclusion Plans (FIPs) of banks for 3 years, starting April 2010 .
- ❖ Roadmap to cover villages of above 2000 population by march 2012
- ❖ Availability of minimum four banking products through ICT model has been ensured .
- ❖ Mandatory opening of 25 % of new branches in unbanked rural centers.
- ❖ KYC documentation requirements significantly simplified for small accounts.
- ❖ Guidelines for convergence between Electronic Benefit Transfer and FIP have been issued.
- ❖ Pricing for banks totally freed . Interest rates on advances totally deregulated.

Eco-System is in place!!!!



Approach adopted by RBI- Some Specifics

- Achieving planned, sustained and structured financial inclusion.
- Technology- To be fixed first.
 - All Bank branches must be on Core Banking Solution (CBS). All Regional Rural Banks (RRBs) to be on CBS by September 2011.
 - Multi-channel approach (Handheld devices, mobiles, cards, Micro-ATMs, Branches, Kiosks, etc.)
 - Front-end devices transactions must be seamlessly integrated with the banks' CBS.

Approach adopted by RBI- Some Specifics - 2



- Coverage- Ensure Transparency.

- What is meant by Banking Coverage?

A village is covered by banking service if either a bank branch is present or a BC is physically present or visiting that village.



Approach adopted by RBI- Some Specifics - 3

Availability of Banking Services means availability of a Minimum of Four Products:

- A basic No-Frills banking account* with Overdraft Facility.
- A Remittance Product for Electronic Benefit Transfer and other remittances.
- A Pure Savings Product ideally a recurring or a variable recurring deposit.
- Entrepreneurial Credit such as General Credit Card, Kisan Credit Card.

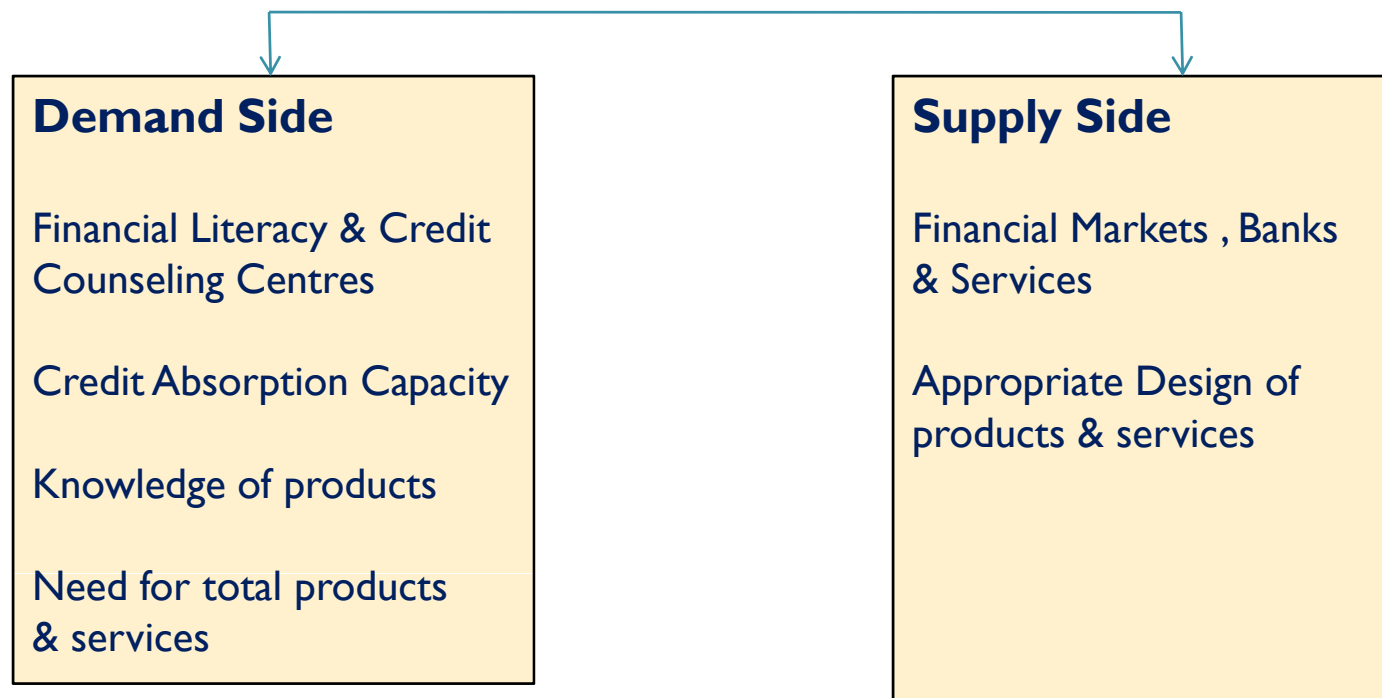
** (A No-Frills Account is one for which no minimum balance is insisted upon and for which there are no service charges for not maintaining the minimum balance.)*



Twin Aspects of Financial Inclusion

Financial Inclusion and Financial Literacy are twin pillars. While Financial Inclusion acts from supply side providing the **financial market/services what people demand**, Financial Literacy stimulates the demand side – **making people aware of what they can demand**.

Financial Literacy & Financial Inclusion



What are RBI's initiatives in tackling the demand side issues?



- Persuading State Governments for including Financial Education in the school curriculum.
- Advising Banks to setup Financial Literacy & Credit Counseling Centers in all districts.
- RBI has conducted outreach activities across the country focusing on the twin objectives of financial inclusion and financial literacy in which the Top management like Governor/ Deputy Governors / Executive Directors of RBI directly participate.
- 160 remote unbanked villages selected by RBI for transformation into Model Villages characterized by 100% Financial Inclusion through ICT initiatives, leveraging on BCs and BFs.
- Project Financial Literacy- Publication of Comic Books, Setting up Multi-lingual Financial Education Website, Release of a Book titled 'I can do Financial Planning' on Financial Education, Essay Writing Competition and other events.
- Organizing Town Hall Events and release of films on Financial Literacy.



For Financial Access and Education Imperatives to succeed...

- Collaboration is the key to Success
Governments- Central and State ; RBI, IRDA, SEBI, PFRDA, NHB and other regulators ; Banks, Insurance Companies, MFs , other FIs and Intermediaries, Industry Associations ; NGOs and Consumer Organizations ; Global Co-operation
- Establishing an appropriate Business Delivery Model through the involvement of all stakeholders is critical to making Financial Inclusion a reality
- Access to financial services and Financial Education must happen simultaneously
- It must be continuous and must target all sections of the population simultaneously

Achievements – Last Year's and Targets for Next 2 years



Consolidated data of SCBs excluding RRBs

	Particulars	Mar-10	Mar-11	Mar 12- Target	Mar 13- Target
1	TOTAL NO. OF BC/CSPS DEPLOYED	33042	58361	125988	187972
2	VILLAGES COVERED THROUGH BRANCHES	21499	22684	24618	25694
3	VILLAGES COVERED THROUGH BCS	33158	76801	197523	320441
4	VILLAGES COVERED THROUGH OTHER MODES	100	355	1361	2177
5	VILLAGES COVERED - TOTAL	54757	99840	223502	348312
6	NO-FRILLS A/CS - NO. IN LAKH	495.53	743.90	1096.24	1533.15
7	NO-FRILLS A/CS - AMT IN CR	4895.19	6565.68	9311.02	11323.26
8	KCCS - NO. IN LAKH	195.24	224.89	322.59	407.33
9	KCCS - AMT IN CR	107518.8	143862.2	152113.6	179254.8
10	GCCS - NO. IN LAKH	6.37	9.50	46.89	81.13
11	GCCS - AMT IN CR	813.85	1307.76	3229.12	5669.73

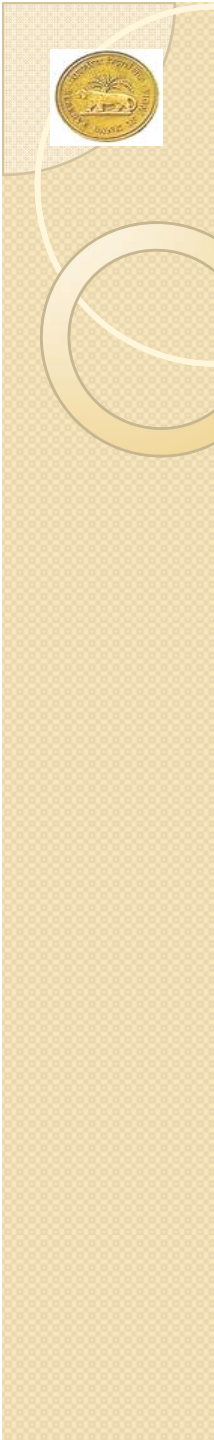
Somewhat Reassuring !!



Challenges Ahead & Future Action

- ❖ Expectations are huge
- ❖ Perceived more as an obligation than a business opportunity
- ❖ Physical capacity of banks including RRBs need to be enhanced
- ❖ Delivery Model - right mix of low cost Brick and Mortar Structures & BCs
- ❖ Need for Intermediate Structure
- ❖ Appropriate Business Model for FI activity for Banks, Technology Providers and BCs
- ❖ For Profit Corporate BCs- though permitted- yet to take off
- ❖ Digital and Physical Connectivity
- ❖ Infrastructure necessary for scaling up: Handheld Devices , Cards, Technology Vendors
- ❖ Universal KYC across regulators – banking on Aadhaar ?
- ❖ Extension from banking products to other financial products

Can We Do ?



Thank you.