Pushing Financial Inclusion – Issues, Challenges and Way Forward

-A Presentation by Dr. K.C. Chakrabarty
Deputy Governor, RBI
At 20th SKOCH Summit 2009, Mumbai on July 17, 2009
Financial Inclusion - Definition

“The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”

- The Committee on Financial Inclusion
  (Chairman: Dr. C. Rangarajan, 2008)

“A Presentation by Dr. K.C.Chakrabarty, Deputy Governor, Reserve Bank of India
Financial Inclusion should include access to financial products and services like,
- Bank accounts – check in account
- Immediate Credit
- Savings products
- Remittances & Payment services
- Insurance - Healthcare
- Mortgage
- Financial advisory services
- Entrepreneurial credit
Financial Exclusion – Who are these People?

- Underprivileged section in rural and urban areas like, Farmers, small vendors, etc.
- Agricultural and Industrial Labourers
- People engaged in un-organised sectors
- Unemployed
- Women
- Children
- Old people
- Physically challenged people
1. Coverage of (Estimates based on various studies and Market Surveys):
   - Check in accounts - 40%
   - Life Insurance - 10.0%
   - Non-Life Insurance - 0.6%
   - Credit Card - 2%
   - ATM + Debit Card - 13%

2. Geographical coverage
   - 5.2% villages are having a bank branch

3. Farmers coverage
   - Out of 119 million farmers, small and marginal farmers are 97.7 million (82.1%)
Financial Inclusion – Steps Taken

- 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?
Absence of Technology
Absence of reach and coverage
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
What Are RBI ‘s Contribution

- No-Frill Accounts
- Overdraft in Saving Bank Accounts
- BC / BF Model
- KCC / GCC Guidelines
- Liberalised branch expansion
- Liberalised policy for ATM
- Introducing technology products and services
  - Pre-Paid cards, Mobile Banking etc.
- Allowing RRBs’ / Co-operative banks to sell Insurance and Financial Products
- Financial Literacy Program
- Creation of Special Funds
- 431 districts identified by the SLBC convenor banks for 100 per cent financial inclusion across various States/UTs and the target in 204 districts of 21 States and 7 UTs has reportedly been achieved
What Have We Achieved

- Number of No-Frill Accounts – 28.23 million (as on Dec. 31, 2008)
- Number of rural bank branches – 31,727 constituting 39.7% of total bank branches (as on June. 31, 2009)
- Number of ATMs – 44,857 (as on May 31, 2009)
- Number of POS – 4,70,237 (as on May 31, 2009)
- Number of Cards – 167.09 million (as on May 31, 2009)
- Number of Kisan Credit cards – 76 million (Source: CMIE publication 2007-08)
- Number of Mobile phones – 403 million (as on Apr. 30, 2009) – out of which 187 million (46%) do not have a bank account (Source: Cellular Operators Association of India)
### Population Per Bank Branch (SCBs)

<table>
<thead>
<tr>
<th>End-March</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969 (June)</td>
<td>82</td>
<td>33</td>
<td>63</td>
</tr>
<tr>
<td>1981</td>
<td>20</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>1991</td>
<td>14</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>2001</td>
<td>16</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td><strong>2007</strong></td>
<td>17</td>
<td>13</td>
<td>16</td>
</tr>
</tbody>
</table>

*Number of people per branch still very high*

Source: Report on Currency and Finance 2006-08 (BSR of SCBs)
### Number of Savings Accounts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Commercial Banks</td>
<td>246</td>
<td>246.5</td>
<td>320.9</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>30.5</td>
<td>36.7</td>
<td>52.7</td>
</tr>
<tr>
<td>Primary Agricultural Credit Societies</td>
<td>89</td>
<td>102.1</td>
<td>125.8</td>
</tr>
<tr>
<td>Urban Co-operative Banks</td>
<td>41.6</td>
<td>42</td>
<td>50</td>
</tr>
<tr>
<td>Post Offices</td>
<td>47.5</td>
<td>60.2</td>
<td>60.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>454.6</td>
<td>487.1</td>
<td>610.3</td>
</tr>
<tr>
<td><strong>Total Accounts per 100 Persons</strong></td>
<td>51</td>
<td>46</td>
<td>54</td>
</tr>
</tbody>
</table>

*Total Accounts per 100 persons still too less!*

Source: Report on Currency and Finance 2006-08
Earners Having a Bank Account-2007

(Per cent of Total Earners)

<table>
<thead>
<tr>
<th>Annual Income (Rs.)</th>
<th>Urban</th>
<th>Rural</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 50,000</td>
<td>34.1</td>
<td>26.8</td>
<td>28.3</td>
</tr>
<tr>
<td>50,000 – 100,000</td>
<td>75.5</td>
<td>71.2</td>
<td>73</td>
</tr>
<tr>
<td>100,000 – 200,000</td>
<td>91.8</td>
<td>87.4</td>
<td>89.9</td>
</tr>
<tr>
<td>200,000 – 400,000</td>
<td>95.5</td>
<td>93.6</td>
<td>94.9</td>
</tr>
<tr>
<td>&gt; 400,000</td>
<td>98.0</td>
<td>96.3</td>
<td>97.6</td>
</tr>
<tr>
<td>All</td>
<td>61.7</td>
<td>38.0</td>
<td>44.9</td>
</tr>
</tbody>
</table>

* Very low percentage in people having bank accounts in Annual Income less than Rs.50,000 bracket in urban and rural area
* Even in higher income bracket exclusion exists

## Sources of Loans

(Per cent of Indebted Earners)

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Banks</th>
<th>Money Lenders</th>
<th>Other Institutional &amp; Non-Institutional Sources</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 50,000</td>
<td>13.0</td>
<td>34.9</td>
<td>52.1</td>
<td>100</td>
</tr>
<tr>
<td>50,000 – 100,000</td>
<td>34.5</td>
<td>19.6</td>
<td>45.9</td>
<td>100</td>
</tr>
<tr>
<td>100,000 – 200,000</td>
<td>49.3</td>
<td>12.0</td>
<td>38.7</td>
<td>100</td>
</tr>
<tr>
<td>200,000 – 400,000</td>
<td>51.6</td>
<td>11.8</td>
<td>36.6</td>
<td>100</td>
</tr>
<tr>
<td>&gt; 400,000</td>
<td>62.8</td>
<td>5.5</td>
<td>31.7</td>
<td>100</td>
</tr>
</tbody>
</table>

*People having Annual Income less than Rs.50,000 bracket still heavily dependent on money lenders*

## Purpose of Loans

<table>
<thead>
<tr>
<th>Purpose of Loan (All Sources)</th>
<th>Rural</th>
<th>Urban</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting Financial Emergency</td>
<td>20.2</td>
<td>4.7</td>
<td>26.3%</td>
<td>31.0%</td>
</tr>
<tr>
<td>Medical Emergency</td>
<td>12.5</td>
<td>1.8</td>
<td>16.3%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Business Needs</td>
<td>7.1</td>
<td>2.1</td>
<td>9.3%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Others</td>
<td>36.8</td>
<td>6.5</td>
<td>47.1</td>
<td>43.3</td>
</tr>
<tr>
<td>Total</td>
<td>76.6 mn</td>
<td>15.1 mn</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### From Non-Institutional Sources

<table>
<thead>
<tr>
<th>Purpose of Loan (All Sources)</th>
<th>Rural</th>
<th>Urban</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting Financial Emergency</td>
<td>15.4</td>
<td>3.4</td>
<td>29.4%</td>
<td>34.3%</td>
</tr>
<tr>
<td>Medical Emergency</td>
<td>10.5</td>
<td>1.5</td>
<td>20.1%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Business Needs</td>
<td>3.9</td>
<td>1.2</td>
<td>7.5%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Others</td>
<td>22.6</td>
<td>3.8</td>
<td>43.0%</td>
<td>38.6%</td>
</tr>
<tr>
<td>Total</td>
<td>52.4 mn</td>
<td>9.9 mn</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### From Institutional Sources

<table>
<thead>
<tr>
<th>Purpose of Loan (All Sources)</th>
<th>Rural</th>
<th>Urban</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting Financial Emergency</td>
<td>4.8</td>
<td>1.3</td>
<td>19.6%</td>
<td>24.9%</td>
</tr>
<tr>
<td>Medical Emergency</td>
<td>2.0</td>
<td>0.3</td>
<td>8.1%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Business Needs</td>
<td>3.2</td>
<td>0.9</td>
<td>13.0%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Others</td>
<td>24.2</td>
<td>5.3</td>
<td>59.3%</td>
<td>52.0%</td>
</tr>
<tr>
<td>Total</td>
<td>24.2 mn</td>
<td>5.3 mn</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>


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From various estimate sources and IIMS survey we find that still 50% of loans are to meet the emergency rather than for business needs

Even rich people are excluded

Even rich people have to depend on non-institutional sources for loan purposes
Problems / Difficulties

- Scaling up of activities
- Transaction cost too high
- Appropriate business model yet to evolve
- BC model too restrictive
- Limitation of cash delivery points
- Lack of Interest / Involvement of Big Technology Players
Pre-requisites For The Success of Financial Inclusion

- Appropriate Technology
- Appropriate and Efficient Delivery model
- Mainstream banks’ determination and involvement
- Strong Collaboration among Banks, Technical Service Provider, BC Services
- Involvement of all
  - Especially the state administration at grass-root level
- Liberalisation of BC model

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Setting up of a National Rural Financial Inclusion Plan with a target of providing access to financial services to at least 50 per cent (50.77 mn) of excluded rural households by 2012 and the remaining by 2015

Encouraging SHGs in excluded regions, measures for urban micro-finance and separate category of MFIs

RRBs to extend banking services to unbanked areas

Use of PACS and other co-operatives as BCs and co-operatives to adopt group approach for financing excluded groups
Global Meltdown - An Opportunity

Focus on Inclusive Growth
Focus on Domestic Consumption and Investment
Focus on increased Social Sector Spending
Emphasis on giving benefits to poor clients
Global (bigger) players looking Inward
Reduction of Cost (?)

Let us Give One Big Push to Financial Inclusion!
Thank You

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