

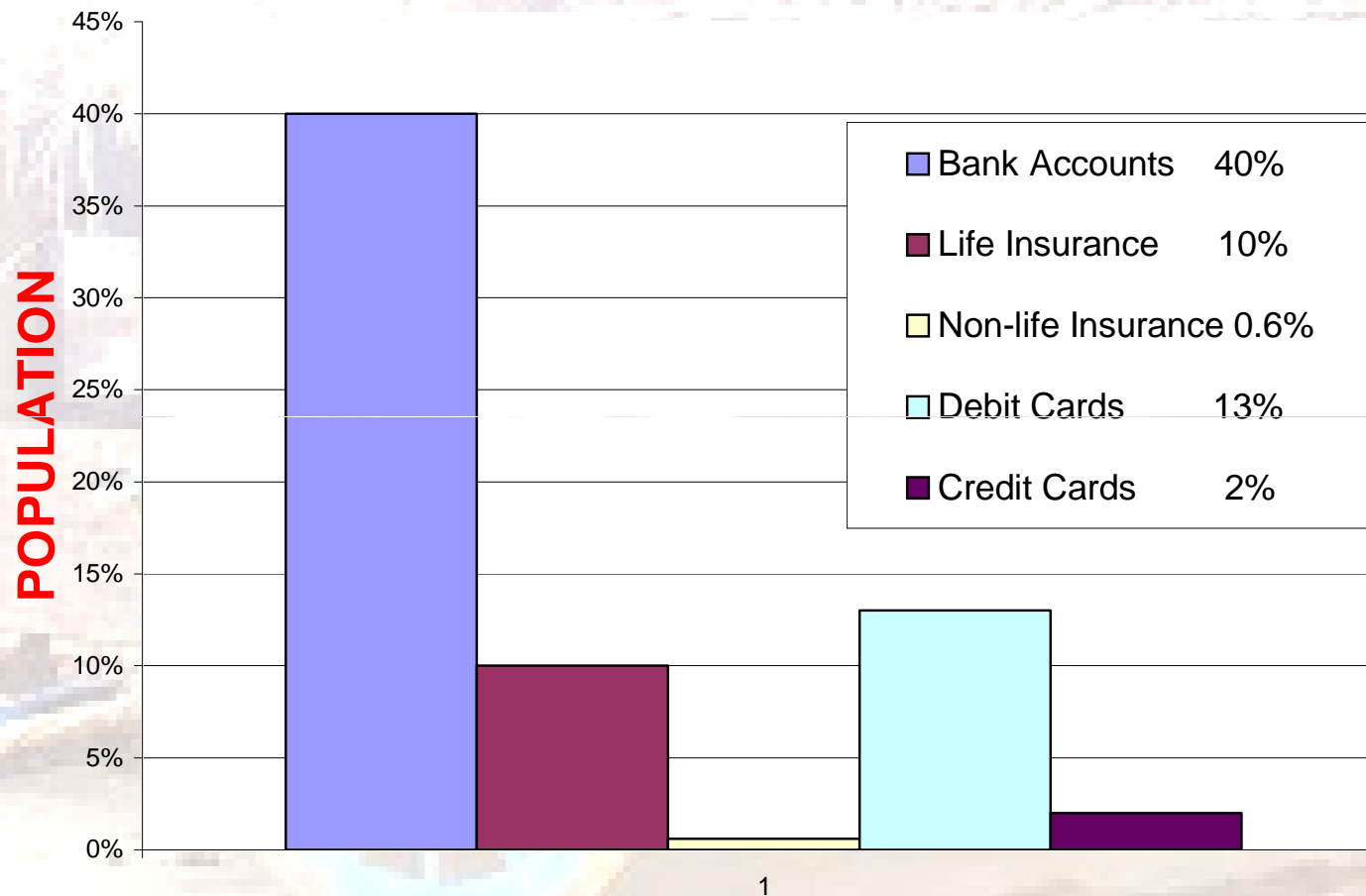


FINANCIAL

INCLUSION

*Presentation by
S.Muralidaran*

SOME FACTS



FINANCIALLY INCLUDED

Source: Excerpts from speech by
Governor at IDRBT on 18.6.10

Financial Exclusion – State-Wise

>75%	Meghalaya, Mizoram, Jharkhand, Uttarakhand, Arunachal Pradesh, Assam, Manipur.
51-75%	Bihar, Orissa, Chhattisgarh, HP, J&K, UP, Nagaland, Tripura, Sikkim
25-50%	Karnataka, Kerala, MP, Maharashtra, Punjab, TN, WB, Rajasthan
<25%	AP, Delhi, Goa, Pondicherry

*Who are the financially excluded sections
in India?*

Marginal Farmers
Landless labourers
Oral lessees

Urban slum dwellers
Migrants

Ethnic minorities
Senior citizens

Why are they financially excluded ?



Terms & Conditions
and
cost of availing credit

Legal identity



- Limited literacy
- Low income levels
- Lack of awareness

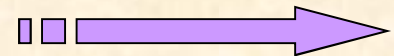


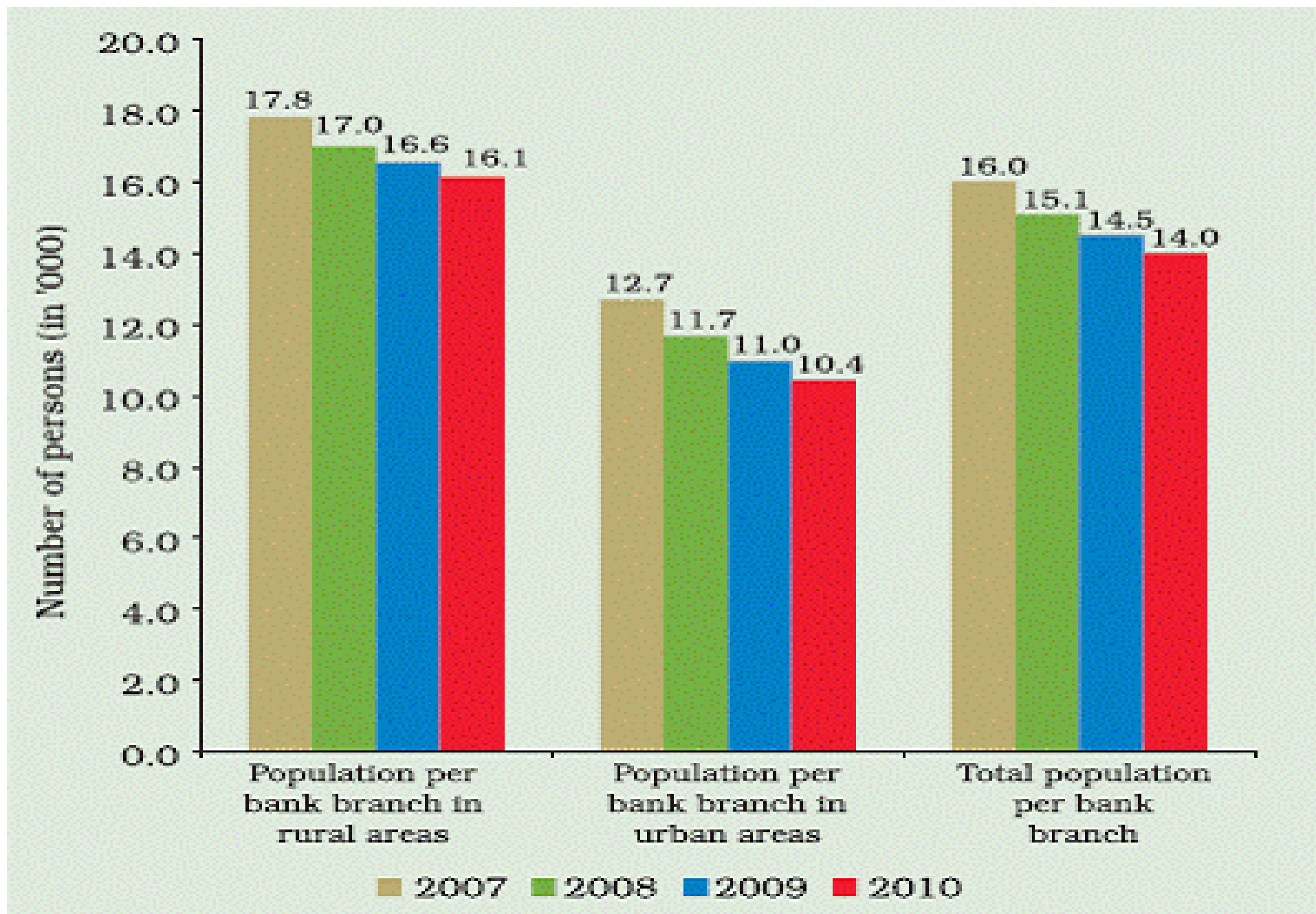
Steps taken so far in this direction includes -

Establishment of :

- **Cooperative banks / SBI / Bank nationalisation**
- **Lead Bank Scheme / RRBs**
- **Service area approach / Local Area Banks / SHG**

Yet, financial inclusion is not a reality





RBI: Trend and Progress of Banking, 2010

Sources of loans				
Per cent of indebted earners				
Annual Income	Banks	Money Lenders	Other Institutional & Non-Institutional Sources	Total
< 50,000	13.0	34.9	52.1	100
50,000 – 100,000	34.5	19.6	45.9	100
100,000 – 200,000	49.3	12.0	38.7	100
200,000 – 400,000	51.6	11.8	36.6	100
> 400,000	62.8	5.5	31.7	100
<p>People having annual income less than Rs. 50,000 still dependent on money lenders.</p> <p>Source: Report on Currency and Finance 2006-08 (IIMS Survey, 2007)</p>				

Way forward

**C Rangarajan Committee
on Financial Inclusion
2006**

Meaning of Financial Inclusion

*Delivery of banking services
at an affordable cost
to vast sections of disadvantaged
and low income groups.*

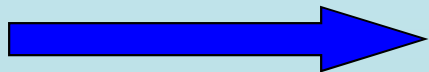
Business Correspondent

Business Facilitator

BC / BF model

One of the main driving forces to take banking & financial Services to the rural poor.

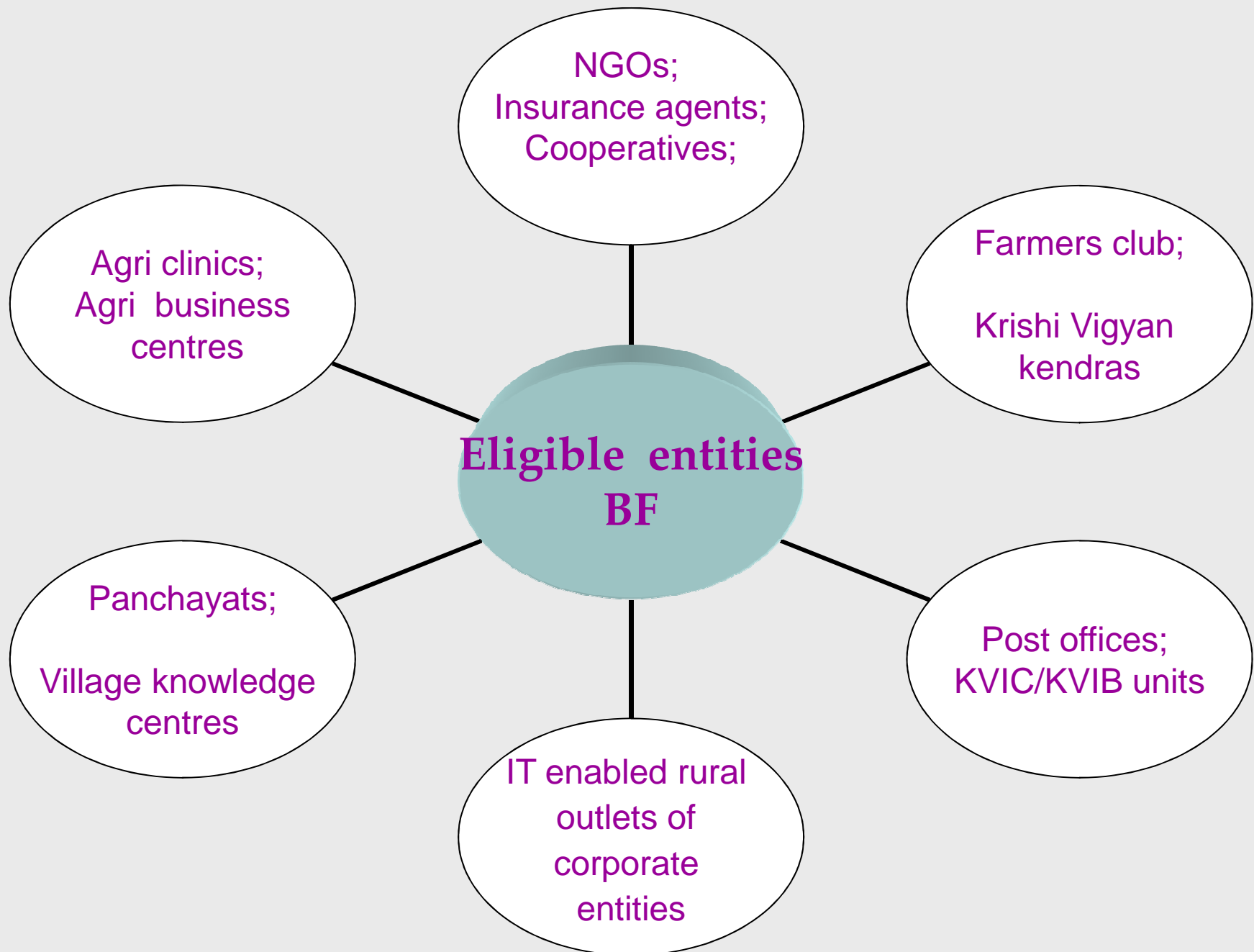
Potential for being a win-win situation for banks and rural population.



Who can be BF / BC?



What are their functions?



Scope of activities of BF



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graph TD; A[Scope of activities of BF] --> B[Identification of borrowers & activity]; B --> C[Preliminary processing of loan applications (incl verification)]; C --> D[Processing and submission of applications to banks.]; D --> E[Follow-up for recovery];
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Identification of borrowers & activity

**Preliminary processing of loan applications
(incl verification)**

Processing and submission of applications to banks.

Follow-up for recovery

Eligible entities - BC



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graph TD; A[Eligible entities - BC] --> B[Post offices]; A --> C[NGOs / MFIs set up under Societies / Trust acts.]; A --> D[Section 25 companies;]; A --> E[Retired Bank/Govt. Employees; ex – servicemen; retired teachers]; A --> F[Societies registered under mutually aided cooperative Societies Acts or the Cooperatives Societies Acts of States.]; A --> G[Individual kirana / medical / fair price shop owners]; A --> H[Agents of small savings schemes of GOI / Insurance cos.]; A --> I[PCO operators; Petrol pump owners];
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Post offices

**NGOs / MFIs
set up under
Societies /
Trust acts.**

**Section 25
companies;**

**Retired Bank/Govt.
Employees; ex –
servicemen; retired
teachers**

**Societies registered under mutually aided cooperative
Societies Acts or the Cooperatives Societies Acts of States.**

**Individual kirana /
medical / fair price
shop owners**

**Agents of small
savings schemes
of GOI / Insurance
cos.**

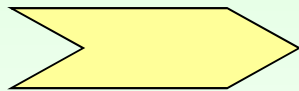
**PCO
operators;
Petrol pump
owners**

Scope of activities of BC

In addition to those under BF model, the following :



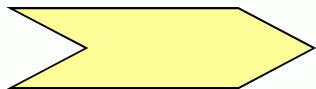
Disbursal of small value credit.



**Recovery of principal;
collection of interest.**



Collection of small value deposit.



Sale of:
micro insurance;
mutual fund / pension products;
/other third party products.

Skills required by BC/BF

Knowledge of:

- **basic functions of banks**
- **proper documentation.**
- **banking products – for rural & urban poor.**
- **applicable technology**
- **Cash handling and accounting (only BCs)**

Ability to:

- **Convince the financially excluded about the various products**
- **Build volumes and customer retention**

Important aspects of BC / BF Model

- ❖ Information regarding BC/BF on website
- ❖ Distance from base branch – 5kms (Metros); 30 kms in other places
- ❖ To ensure viability - Banks can collect reasonable service charges under Board approved policy
- ❖ Copy of the policy to be forwarded to RBI.

Benefits of BC model



Branchless banking
Doorstep banking
Spread presence in unbanked areas.

Scaling up possible
Replicate success of SHG model

Enhances quality of assets due to monitoring
Credit disbursement hassle free

Risks of BC model

Reputational risk to the bank

Legal and operational risks

Incentives for BCs

Equal interest by other stakeholders

Funds at NABARD

As per the recommendations of Committee on Financial Inclusion, two funds viz.,

Financial Inclusion Fund (FIF)

Financial Inclusion Technology Fund (FITF)

created with NABARD with corpus of Rs. 500 crores each, to be contributed 40:40:20 by GoI, RBI & NB.

FIF

- **Capacity building of BF/BC; personnel of NABARD, Banks, Post Offices, State Government Departments, MFIs/ NGOs/ Local Level Associations, members of SHGs / JLG etc.**
- **Promotional support to institutions such as Resource Centres, Farmers' Service Centres and Rural Development and Self Employment Training Institutes to enable them to provide improved tech.& financial services.**
- **Funding support for setting up of Rural Credit Bureaus and Credit Rating of rural customers.**

FITF

- **Encourage user friendly technology solutions.**
- **Support to technological solutions aimed at providing affordable financial services to the disadvantaged and facilitating the documentation for processing of loans.**
- **Creating a common technology infrastructure with comprehensive credit information.**

Progress made -Statistical Information

March 2010 – No. of

- | | |
|-----------------------|-----------------------|
| • No- frill accounts | • 74 million (Mar 11) |
| • Rural bank branches | • 32494 |
| • ATMs | • 60153 |
| • POS | • 4,70,237 (May 2009) |

Number of mobile phones: 4030 lakh

(as on Apr.30, 2009)

**out of which , 46% of the mobile owners
do not have a bank account.**

***Are we expecting too much from BCs
and BFs?***

What can be done to improve the model?

Banks to :

- **Realise the benefits of the model and implement it with zeal.**
- **“Cash Routes” for streamlining cash management**
- **Upscale financial education in vernacular language.**
- **Grievance redressal mechanism**
- **Compensation structure.**
- **Include small savings, micro-credit, insurance, small value remittances.**
- **Consider bearing the initial set up cost of the BCs.**
- **Provide reasonable temporary overdrafts to BCs.**
- **Risk mitigation measures.**

Financial Inclusion - use of technology



SMART CARDS

BIOMETRIC CARDS



Point of Sale

Mobile Phones

PCO connectivity

ATMs



Financial Inclusion - some concerns

No Frills A/c : Opening of account insufficient; should be combined with other banking products.

Seamless integration using appropriate technology

Risk in carrying cash

Onerous responsibility to cater to entire villages.

Build up of volumes are crucial

Operational and security risk in technology

Is Financial Inclusion viable?

Case studies:



Dharavi : an industrial slum in Mumbai; exported goods worth lacs every year

❖no commercial bank branch till 2006.

❖First branch opened in Feb 2007, which today, has business of over 44 crores;

❖9 actively used ATMs in Dharavi today.

Source: Speech by Governor at IDRBT on June 18, 2010

In the book “*Portfolios of the Poor: ‘How the Worlds Poor Live on \$ 2 a day’*”, the authors found, that,

even the poorest relied on complex combinations of financial strategies including joining savings clubs & buying funeral insurance.

These people even used to borrow in order to save, paying interest on savings. This made sense given their unpredictable incomes and limited options.

Source: Speech by Governor at IDRBT on June 18, 2010

Financial Inclusion - Way Forward

“every village in the country with over 2000 population must have access to banking services by March 2012”

- Finance Minister in the Budget speech

“all domestic banks to prepare Financial Inclusion Plan (FIP) and have it approved by the Board.”

- Reserve Bank of India

For FIPs to succeed,

- the no- frills accounts should become operational;
- technology solutions should be in place;
- RRBs should be core bank enabled;
- BC model coupled with biometric technology should be deployed;
- performance of staff to include achievement of targets under FI;
- connectivity issues should be sorted out.

It is therefore evident that other stakeholders, like NGOs, SHGs, etc. should also evince equal interest.

Post offices with their outreach can be a very good medium.

BCs with a lot of drive and integrity will be needed.

Building trust with the poor- will happen with proper training and counseling.

Last but not the least, bankers themselves should realise that there is a fortune at the bottom of the pyramid.

Dr Rangarajan -

FI is no longer a choice but a compulsion. But if bankers and other stakeholders themselves see this as a good choice, the results are bound to be in the direction desired.

Achievements & Targets

	Particulars	Mar 10	Mar 11	Mar 12 Target	Mar 13Target
	Total no of BC/CSPs deployed	33042	58361	125988	187972
	Villages covered through branches	21499	22684	24618	25694
	Villages covered through BCs	33158	76801	197523	320441
	Villages covered through other modes	100	355	1361	2177
	Villages covered (total)	54757	99840	223502	348312
	No Frills a/c (no in lakh)	495.53	743.90	1096.24	1533.15
	No Frills a/c (Amt in cr)	4895.19	6565.68	9311.02	11323.26
	KCCs (no in lakh)	195.24	224.89	322.59	407.33
	KCCS (amt in cr)	107518.80	143862.20	152113.60	179254.80
	GCCs (no in lakh)	6.37	9.50	46.89	81.13
	GCCs (amt in cr)	813.85	1307.76	3229.12	5669.73
	Source: Presentation by Dr. K.C. Chakrabarty, DG, RBI at St. Xavier's College on 6.9.2011				