

FINANCIAL INCLUSION

Policy framework for Financial inclusion



April 2012



What is 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 regulated mainstream institutional players” (Regulator).

Minimum products to be offered are:

- **Savings,**
- **Loan,**
- **Remittances and,**
- **Non-banking financial products like Insurance**



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

Demand Side

Financial Literacy & Credit Counseling Centres
Credit Absorption Capacity
Knowledge of products
Need for total products & services

Supply Side

Financial Markets , Banks & Services
Appropriate Design of products & services

Bringing in new bouquet of financial services under the ambit of financial inclusion

- 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.

NEED OF FINANCIAL INCLUSION

From socio economic view point

- 70% of Indian population (more than 75 crore people) live in 6.40 lac villages
- Nearly 50% of rural India does not have bank account.
- 33513 rural bank branches cater to 6 lac villages (<6%)
- National average of 1 bank branch per 14000 population. Ratio much adverse in under banked/ unbanked geographies. More than 60% (375) districts are underbanked district
- Lack of financial literacy- biggest hindrance in country's economic growth.
- Inclusive Growth –not possible without outreach to unbanked villages

WHY FINANCIAL INCLUSION?

Financial Inclusion and Financial Stability have mandatory co-existence since Inclusion

- ✓ Can uplift financial conditions and standard of living.
- ✓ Creates increase in economic activities and employment opportunities resulting in higher disposable income.
- ✓ Increase efficiency of social welfare schemes & reduce leakages



Government Efforts to reach financially excluded populace

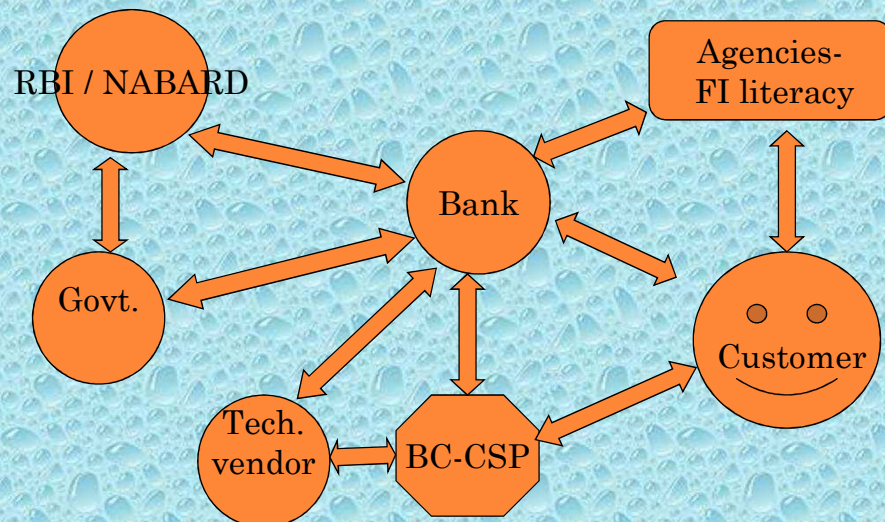
In the Past

- Government Efforts in the Past (to reach financially excluded populace)
- Nationalization of Banks
- Introduction of Lead Bank Scheme
- Incorporation of Regional Rural Banks
- Branch Expansion 8000+ (in 1969) to 91,000+ (Present) spread across the length and breadth of country
- Service Area Approach
- Self Help Group linkage programme.
- Priority Sector Lending requirements (For Priority Sector – 40%, Agriculture 18%, Advances to Weaker Section – 10% etc)

Recent Efforts

- Business Correspondent Model
- 2006 --Khan Committee. BC model Inception
- ICT based model thru BC -- door step delivery
- RBI 's periodical learning based tweaking the model.
- Enlarging basket of entities eligible to be BCs
- Addressed viability issue -allowing banks to charge a reasonable user fee.
- Unlike other countries who promoted Financial Inclusion with focus on one product Indian model emphasizes delivery of full bouquet of services (access to savings, loans, remittances, insurance)
- Relaxation on KYC norms – No Frill accounts
- Simplified Branch Authorisation:
- Banks to open 25% of branches in unbanked rural centres.
- Villages (+ 2000 populace) allotted under Financial Inclusion Plan
- AGoI's recent directive – Setting up Ultra Small Branches through BC model (in more structured manner)

EXPECTATIONS OF DIFFERENT STAKEHOLDERS



Alignment of expectations

CHALLENGES FOR BANKS (1)

EXTERNAL:

➤ **TECHNOLOGY:**

Most of the technologies available today are of Start Up companies. Scalability and sustainability (Business Continuity, Disaster Recovery, etc.) of the technology solutions is a major challenge.

➤ **Risks associated with outsourcing:**

- ✓ Reputation risk (for poor/discontinued service, frauds, mis-selling)
- ✓ Non-maintenance of Customer Data confidentiality by CSP/BCs
- ✓ Risk of KYC/AML guidelines being ignored at CSP.
- ✓ **Moral hazard of engaging 'intermediaries'.**

➤ **CASH MANAGEMENT**

- ✓ Cost of movement of Cash
- ✓ Risk associated with movement and retention of cash



CHALLENGES (2)

➤ **Business Correspondents and Customer Service Point (CSP) Operators:**

- ✓ Finding good BCs and managing a large number of CSPs. Many of the BCs are technology vendors who engage CSPs.
- ✓ KYC, Enhanced Due Diligence of the CSPs is essential to engage 'fit and proper' CSPs.
- ✓ Sharing of commission by the BCs with the CSPs – in transparent, timely and equitable manner to keep the CSP motivated.

➤ **Infrastructure:**

- ✓ Poor infrastructure facilities like Roads, Telecommunications, etc. at the CSP locations.
- ✓ Law and Order issues – like Left Wing Affected areas.
- ✓ Local issues (like inter tribal rivalries in NE, Caste prejudices in the villages, etc.)

CHALLENGES (3)

- **Multiple expectations from Stake holders:**
 - ✓ Bank's own outreach plans need to be dovetailed to the expectations of RBI and the Government of India.
 - ✓ Managing the expectations of different State Governments – on operational issues.
 - ✓ Mandated targets of Govt. of India (like FIP villages) may not match with that of (EBT) expectations of State Governments.

Internal:

- **Acceptance of the channel by the Staff.**
 - ✓ Outsourcing is new to banks.
 - ✓ The channel is loss making.

Policy frame work and mitigations.

External challenges:

- **Technology:**
 - ✓ Banks should develop and own technology with MIS capabilities, DR, etc. Role of the 'technology vendors should be restricted to front end devices (like Micro ATMs).
- **Outsourcing risks:**
 - ✓ Matrix for conducting Due diligence of the BCs and CSPs should be developed by the Banks.
 - ✓ The Link branches should be actively involved while approving the CSPs.
 - ✓ CSPs with existing income streams (like Kirana shops) should be preferred over 'stand alone' CSPs.
 - ✓ Regular and structured visits by the Link branch staff to the CSP location.
 - ✓ Inspection and audit for CSPs along with that of link branch.
 - ✓ Dedicated Cadre of staff for regular monitoring and mentoring of the CSP.

Policy frame work and mitigations

- **Acceptance of the Channel by the Customers:**
 - ✓ Conduct regular Gram Sabha/Nukkad Natak, etc. in the village.
 - ✓ Conduct Financial Literacy programs in the village
- **Viability of the Channel:**
 - ✓ Introduce a full range of products (like Savings Bank, SB-Cum-OD, Recurring Deposit, Retail loan, remittances, KCC/GCC, etc.) to boost the transactions at the BC channel.

Internal challenges:

- Regular and structured sensitization programs for **all** the staff starting with those dealing with the FI channel.
- Establishment of 'back office' support structure for management of the Channel.

FINANCIAL LITERACY STIMULATES THE DEMAND SIDE

- **Financial Literacy stimulates the demand side – making people aware of what they can demand.**
 - Financial Literacy & Credit
 - Counseling Centers
 - Credit Absorption Capacity
 - Knowledge of products
 - Need for total products & services
- **Bringing in new bouquet of financial services under the ambit of financial inclusion**
 - A basic No-Frills banking account with Overdraft Facility.
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LEVERAGING TECHNOLOGY

GOVERNMENTAL SUPPORT AND NEW IDEAS

➤ Leveraging Technology

- to make banking products available in cost effective and easy to use manner.
- The B C platform across the banking sector to be simple and standardised.

➤ Governmental Support will encourage FI activities

- FI related business transactions / thru BC Model may be tax exempt (service tax etc)
- Cost of administering small-ticket transactions to be brought down with common Technology
- Interoperability brings costs down.
- **UID:** May be “game changer” in FI – help foster true social reforms. All govt benefits/payments in respect of social security etc may be routed thru UID enabled a/cs,
- The enrolment data will be used for opening ‘UID enabled’ accounts.

BENEFITS OF ENCOURAGING FINANCIAL INCLUSION

<p><u>To Govt:</u></p> <ul style="list-style-type: none"> ➤reaching out to unbanked population. ➤Inculcating saving /Banking habit ➤Reducing migration to urban centres ➤Speeding up economic development 	<p><u>To Bank:</u></p> <ul style="list-style-type: none"> ➤Increase Outreach ➤Increase Customers ➤ Base ➤Improving Market share ➤ Potential business ➤Low investment outlets/low transaction cost ➤Low cost CASA deposits ➤Corporate Social Responsibility 	<p><u>To BC</u></p> <ul style="list-style-type: none"> ➤Employment opportunity ➤Opportunity to expand existing business ➤Ride on the Brand name of the Bank ➤Respectable Image in society ➤Customer base for its own activities other than banking activities 	<p><u>To the Customer:</u></p> <ul style="list-style-type: none"> ➤Affordable access to banking services practically at the doorstep ➤Loans and Remittance Facility (Migrants) ➤Surplus income Saving/Safety- ➤Empowerment of women ➤Release from the clutches of local money lenders ➤Improvement in Economic status. ➤Availability of Govt Benefits. ➤Improved financial literacy
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CONCLUSION

- Addressing financial exclusion requires a **holistic approach** on the part of the banks in
 - ✓ Offering simple and customer friendly products; and
 - ✓ Creating awareness about financial products, etc. (financial literacy).
- While Banks provide 'supply push' by setting up banking outlets closer to the habitations of the customers and offering more products, other stake holders (Governments, Regulator, NGOs and the industry) should help generate 'demand pull'.

For example,

- ✓ NGOs can assist formation of SHGs;
- ✓ Industry may insist on routing all payments (like wages of contract employees, etc.) through bank accounts
- ✓ Governments should develop infrastructure support like Roads, telecommunications, etc.

All the Stake holders need to come together to make the initiative successful





THANK YOU



SBI'S APPROACH TO FINANCIAL INCLUSION

Financial Inclusion is an opportunity – neither a burden nor a social obligation.

➤ Savings

42% of Savings in rural areas and 23% of savings in Urban areas are in Cash. (Economic Survey 2011)

66% of the households with income upto Rs.50,000 per annum, in Urban areas and 73% in rural areas do not have a Bank account. (RBI)

➤ Loans

87% of the household with income upto Rs.50,000 per annum, have borrowed money from non-banking sources. (RBI)

➤ Remittances

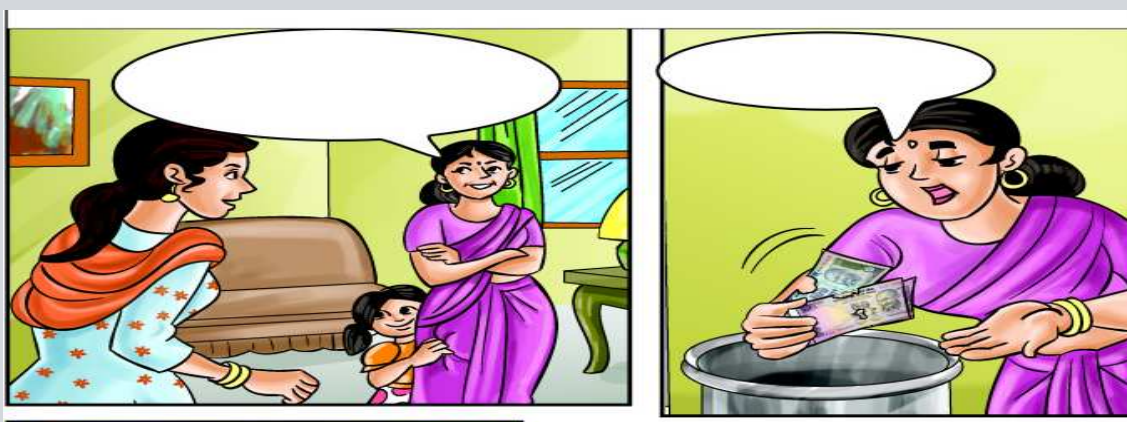
10 crore domestic migrant workers remit home about Rs.75,000 crores per annum - 70% of which are routed through informal sector. (Dr YSP Thorat and Dr.Howard Jones)

Huge business opportunities



INNOVATIONS

- Innovating advertisement/customer awareness program by printing comic books, holding '**Nukkad Natak**', etc.



- Efforts made to create a Rural Credit Bureau. Pilot started in association with M/s Highmark in Villipuram district of Tamil Nadu.

BANKING THROUGH BC MODEL

SBI Tiny Card



- Operated with fingerprint identification.
PoS comprises a mobile phone, fingerprint scanner & printer.
- Supports SB, RD, OD products and Remittance

KIOSK Banking



- Internet based, Bio-metrically enabled.
- Online, real time banking transactions.
- Cost effective if existing infrastructure (like internet kiosks etc.) is utilized.

MOBILE Banking



- Uses low end mobile with PIN and signature booklet.
- No biometrics.
- Customer gets acknowledge through SMS.
- Avoids cost of PoS, card, PC-kiosk and fingerprint machine etc.

FINANCIAL INCLUSION

Strategy

- SBI has been involved in extending banking facilities to the unbanked areas of the country much before it was made mandatory
- SBI has an exclusive setup to pursue activities & always given priority to rural banking, treated this as a business opportunity.
- SBI has 14,098 branches across the country and of these as much as 5,342 (38%) are in rural areas. 29% of the branches are in semi-urban areas.
- SBI is lead bank in 14 States.
- SBI adopted BC model five years ago and today the number of outlets is more than 29,000. The BCs constitute a huge support structure for the bank in its financial inclusion efforts.

Rural and small ticket financing:

- First bank to set up specialized Agriculture Development Branches (ADB). >400 ADBs
- Tie-up financing to finance small and marginal farmers as also the landless.
- Financing Self Help Groups (SHGs): >2.00 million such groups. Bank has deposits of Rs. 934 crores and a loan book of about Rs. 6238 crores from these.

COVERAGE OF UNBANKED VILLAGES UNDER FIP

Out of 72,800 unbanked villages with population >2,000, SBI's share is 12,931.

Plan for coverage :

✓ FY 2010-11	5,261
✓ FY 2011-12	7,670

Coverage delivered :

✓ Through branch channel	226
✓ Through BC channel	12,705
✓ Total	12,931

Rural Footprint

	March '10	March '11	March '12
Total domestic branches	12,545	13,542	14,098
Rural branches	4,735	5,128	5,382
% of Rural branches to total	38	38	38
No. of BC outlets	12,355	20,763	29,866
No. of Financial Inclusion Centers (FICs)	48	65	113
No. of "No Frills" Accounts (in lakh)	76	97	134
Balance in "No Frills" Accounts (in Rs. crores)	336	615	628

Strong rural linkage continues.

ELECTRONIC BENEFIT TRANSFER (EBT)

	No. of Customers (Lakh)	No. of Transactions (Lakh)	Amount disbursed (Rs. Crores)
2009-10	11.39	40.96	122.23
2010-11	24.46	43.84	138.43
2011-12	27.55	88.55	309.89

- Participating in EBT projects of six States (AP, HP, Karnataka, Orissa, Haryana and Chhattisgarh).
- Andhra Pradesh is by far the largest project (71 Lakh transactions; Rs. 249 Crore disbursed this year).
- Discussions between Ministry of Finance, Ministry of Rural Development and Banks are ongoing about compensation.
- We are actively participating in all projects implemented by the State Governments.

BANK ON WHEELS – STATUS MARCH 12



➤ **Bank on Wheels** – a van with lap top with data card to cover on an average 6 villages and services customers.

➤ **'Bank on Bike'** – a CSP travelling on bike carrying a lap top with data card for offering internet kiosk based banking. The CSP is able to cover 3 villages in a cost effective way. Hyderabad and Chennai Circles have introduced this model.



<u>Particulars</u>	<u>No.</u>
No. of Vehicles engaged	107
Villages covered	856
Average village per vehicle	8
No. of Accounts opened	103,846



OPENING OF ULTRA SMALL BRANCHES UNDER FIP

- ❖ 12,931 unbanked allocated villages covered under FI Plan 2010-12.
- ❖ Of these, 12,705 villages covered through Customer Service Point of BC. *(All these outlets to be categorized as Ultra Small Branches)*
- ❖ **Ultra Small Branches (USBs)**
- ❖ Instructions for weekly visits to CSPs on a fixed time and day by Bank Officer of Link Branches have been issued.
- ❖ Officers have started visiting CSPs (carrying previous day balance files, etc., in a laptop to facilitate customers) every week and are also collecting all the account opening forms and other related documents so that accounts get uploaded in CBS the very next day till functionality of upload through laptop (VPN connectivity to CBS) in the village is made available.
- ❖ Our IT department is working on the project of providing VPN connectivity to CBS
- ❖ All the accounts opened by us in allocated FIP villages (both through CSP/BC and branch channel) are technology enabled and are available on CBS platform.
- ❖ 5,751 outlets of CSP/BCs in FIP villages are transacting on Kiosk Banking Model - which is online - real time. It provides facility of real time balance enquiry / statement to the customers.



THANK YOU

