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FINANCIAL INCLUSION: THE INDIAN EXPERIENCE

1. INTRODUCTION

Financial Inclusion in the Indian context has been defined as 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.

Financial inclusion has become one of the most critical aspects in the context of achieving inclusive growth and development. Financial inclusion helps accelerate economic growth by reducing economic vulnerability of the poor leading to improvement in the quality of life. Access to affordable credit is one of the most significant requirements of the poor. This coupled with safe savings, transfer of money and insurance will mostly satisfy the dire financial requirements of the poor.

2. EXTENT OF FINANCIAL INCLUSION

Out of the 600,000 villages in India, till recently, only about 30,000 villages had a bank branch. Out of the 1.2 billion population of the country only 45% of the people had bank accounts, 10% of the people had Life Insurance, 0.6% people had

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some kind of non-life insurance, 13% had debit cards and only 2% had credit cards. The mainstream financial institutions have an important role to play in the effort towards achieving total financial inclusion for the country.

Our broad objective is to take banking to all excluded sections of the society, rural and urban. Our attention was specifically accorded to provide banking services to all the 600,000 villages and meet their financial needs through basic financial products like savings Bank Account, credit facilities and remittance facilities.

3. BOTTLENECKS

The bottlenecks and difficulties in achieving complete financial inclusion in our country are fairly well known. The major obstacles are:

- ❖ Non-availability of appropriate banking technology till a few years ago. Lack of proper physical infrastructure, digital connectivity, etc. in some parts of the country. If Financial Inclusion is to take place, it can only be achieved through Information and Communication Technology (ICT) based models.
- ❖ Lack of proper Business Models. Banks still perceive this as a burden and an imposition and not as a viable Business Model.
- ❖ Lack of cost effective scalable Delivery Models. There is no facilitating and effective Delivery Model especially when problems are encountered. Business Correspondent (BC) based Delivery Model is still in the evolutionary stage.
- ❖ The costs of administering low value transactions and of financial intermediation are perceived to be on the higher side.
- ❖ Planned, strategic and concerted efforts were lacking. It requires massive efforts from all stakeholders.

4. STRATEGY

Our broad strategy for achieving planned, sustained and structured Financial Inclusion has been through a planned approach to the entire gamut of issues Reserve Bank has advised banks:

- ❖ to formulate a Board approved Financial Inclusion Plan (FIP) for the next three years. We have not imposed a uniform model so that each bank is able to build its own strategy in line with its Business Model and comparative competitive advantage.
- ❖ to integrate FIPs with the normal Business Plans of the banks. We have freed interest rates and have also allowed banks to charge their customers for

other transactions. We believe that banking to the poor is a viable business opportunity but a cost-benefit analysis needs to be done by the banks to make Financial Inclusion congruent with their Business Models. Banks must view Financial Inclusion as a viable Business Model.

- to view Financial Inclusion as a huge business opportunity and perfect their Delivery Models. BC based delivery model has been made more flexible and inclusive.
- to fix technology aspects first including completion of Core Banking Solution (CBS) in all their branches and those of sponsored RRBs, and seamless integration of front-end devices with the back-end systems. Without this, it would not be possible to scale up the activities.
- to increase the bouquet of products currently being offered. banks have been advised to provide a minimum of four products to the account holder, viz:
  a. A savings cum overdraft account
  b. A pure savings account, ideally a recurring or variable recurring deposit
  c. A remittance product to facilitate EBT and other remittances, and
  d. Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC)

  Apart from these minimum basic products, banks can offer any other product like insurance, mutual funds, etc. to the account holders.
- that for a village to be considered covered by banking services, either a bank branch has to be present or a Business Correspondent (BC) outlet has to be made available in that village. There must be a bifurcation between villages with more than 2000 population and those with less than 2000 population. The plan needs to cover in an integrated manner both categories of villages. The name of the BC / branch covering a particular village needs to be indicated on the banks website.
- to provide Special focus on Financial Inclusion at Urban and Metro centers through a functional approach.
- to Involve all the stakeholders in the process. Governments, both Central and State, NGOs, technology vendors, Industry Associations, Insurance and Mutual Fund companies, society at large

5. RBI INITIATIVES

RBI's efforts have been to remove all regulatory bottlenecks for facilitating greater Financial Inclusion. Pricing has also been made free. Some of the initiatives taken by RBI in this direction are detailed below:

5.1. Provision of new products

- **Opening of no-frills accounts:** Banks were mandated to offer basic banking 'no-frills' accounts with 'nil' or very low minimum balances as well as charges that make such accounts accessible to vast sections of the excluded population. **As of March 2011, 74.4 million 'no frills accounts' have been opened by banks with outstanding balance of 65.66 INR billion.**
- **Small Overdrafts in No-frills accounts:** With a view to make No Frill accounts transactions; Banks have been advised to provide small ODs in such accounts. **Up to March 2011, banks had provided 4.18 million ODs amounting to INR 2.0 billion.**
- **General Credit Cards (GCCs)/Kisan Credit Cards (credit cards designed for farmers)-KCCs-:** Banks have been asked to consider introduction of a General Purpose Credit Card (GCC) facility up to INR 25,000/- at their rural and semi-urban braches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end-use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. **As of March 2011, banks had provided credit aggregating INR 13.08 billion in 0.95 million General Credit Card (GCC) accounts.** As regards KCCs, the total no. of accounts as of March 2011 was 2.25 million.

5.2. Regulatory measures

- **Relaxation on KYC norms:** Know Your Customer (KYC) requirements for opening bank accounts were earlier relaxed for small accounts in August 2005, simplifying procedure by stipulating that introduction by an account holder who has been subjected to full KYC drill would suffice for opening such accounts or the bank can take any evidence as to the identity and address of the customer to the satisfaction of the bank.
- **Simplified branch authorisation:** To address the issue of uneven spread of Bank branches, domestic scheduled commercial banks are permitted to freely open branches in Tier 2 to Tier 6 centres with population of less than 100,000 under general permission, without the need to take permission from Reserve Bank in each case, subject to reporting.
- **Opening of branches in unbanked rural centres:** Banks have been mandated in April 2011 to allocate at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centres.
- **Engaging Business Correspondents:** In January 2006, the Reserve Bank permitted banks to engage business facilitator and business correspondent (BC)

as intermediaries for providing financial and banking services. The BC model allows banks to provide door step delivery of services especially 'cash in – cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem. The list of eligible individuals/entities who can be engaged as BCs is being widened from time to time. With effect from September 2010, "For-profit companies" have also been also allowed to be engaged as BC's.

5.3. Supportive measures

- **Special package for North Eastern States:** To improve banking penetration in the North-Eastern Region of the country, where the problem of exclusion is extreme, the Reserve Bank has offered to fund the capital and running costs for five years to banks for opening of bank branches.
- **Roadmap for providing Banking Services in unbanked villages:** With an objective of ensuring uniform progress in provision of banking services in all parts of the country, banks were advised to draw up a roadmap by to provide banking services through a banking outlet in every unbanked village having a population of over 2,000, by March 2012. RBI advised banks that such banking services need not necessarily be extended through a brick and mortar branch but could also be provided through any of the various forms of ICT – based models, including of Business Correspondents (BCs). About 72,800 of such unbanked villages have been identified and allotted to various banks through State Level Bankers committee (SLBC), for providing banking services by March 2012. As of March 31, 2011, 24,710 villages have been provided with banking outlets.
- **Financial inclusion Plans:** In January 2010, all public and private sector banks were advised to put in place a Board approved three-year financial inclusion plan (FIP) and submit the same to the Reserve Bank by March 2010. These banks prepared and submitted their FIPs containing targets for March 2011, 2012 and 2013, to Central Office. These plans broadly include self-set targets in respect of rural brick and mortar branches opened; business correspondents (BC) employed; coverage of unbanked villages with population above 2000 as also other unbanked villages with population below 2000 through branches/BCs/other modes; no-frill accounts opened through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC) issued; and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate Board-approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. The implementation of these plans is being closely monitored by the Reserve Bank on a quarterly basis.

Table 1. Progress on Financial Inclusion (all public and private sector banks)

SR	Particulars	As of Mar 10	As of Mar 11	As of Jun 11
1.	Total No. of BC deployed	33042	58361	64752
2.	Total Villages Covered	54757	99840	107604
3.	Villages Covered – with population >2000	27743	53397	59640
4.	Villages Covered – with population <2000	27014	46443	47964
5.	Villages covered through Branches	21499	22684	22870
6.	Villages covered through BCs	33158	76801	84274
7.	Villages Covered through other Modes	99	383	460
8.	Urban Locations covered through BCs	423	3653	4524
9.	No Frill A/Cs (No. in millions)	49.55	74.39	79.09
10.	Amount in No Frill A/Cs (Amt in INR billion)	48.95	65.66	59.48
11.	KCCs outstanding – No. in millions	19.52	22.49	20.29
12.	KCCs outstanding – Amt In INR billion	1075.19	1438.62	1361.22
13.	GCC outstanding – No. in millions	0.63	1.00	1.07
14.	GCC outstanding – Amt In INR billion	8.14	13.08	23.56

6. WAY FORWARD

In order to review the progress of banks in the implementation of FIPs and making way for accelerated progress in future, RBI has been conducting Annual FIP Review Meetings with banks. Based on the discussions and action points emanating from the meetings held during May-September 2011, the way forward for banks to move towards achieving the goals under financial inclusion has been outlined as given below:

- ❖ Banks to perceive FI as a profitable business model and not as an obligation. This would be possible only if banks strive towards offering more and more credit products to customers captured as part of the FIP. The key is to establish an appropriate Business Delivery Model through the involvement of all stakeholders to make Financial Inclusion a reality.

- ❖ In addition to providing banking services in villages with more than 2000 population, banks to focus on providing banking services in peripheral villages with population of less than 2000.
- ❖ In future, banks to focus more towards opening of Brick & Mortar branches in unbanked villages. It may be a low cost intermediary simple structure comprising of minimum infrastructure for operating small customer transactions and supporting up to 8–10 BCs at a reasonable distance of 2–3 kms. This will lead to efficiency in cash management, documentation, redressal of customer grievances.
- ❖ Remuneration of BCs should be made attractive. The remuneration of BCs should be a combination of fixed and variable pay. This will encourage BCs to strive harder for bringing in more business for the bank.
- ❖ Banks need to formulate accounting system for booking transactions done through BC channel. As cash of customers with BC is bank's cash, banks must ensure that it is reflected as cash in bank's books & is reported accordingly. Care should also be taken to ensure that the BC's transaction account is separated from his account maintained with the bank as a customer.
- ❖ Banks to expand its financial inclusion initiatives in urban and semi-urban areas by targeting pockets of migrant workers and small vendors, leveraging Aadhaar enrollment for opening banks accounts.
- ❖ Public Sector Banks have been advised to formulate Financial Inclusion Plans for all Regional Rural Banks sponsored by them and develop an effective monitoring mechanism so that targets assigned to the RRBs are also achieved meticulously.
- ❖ Banks need to encourage routing of EBT based payments under NREGA etc. through ICT based solutions with the support of state Governments. This will ensure direct credit to the beneficiaries account and eliminate unnecessary leakages in the process.
- ❖ Banks should initiate action for registering with the Unique Identification (UID) authorities, if not already done so, and ensure that UID enrolments of villagers are done at the earliest. Banks should start opening accounts on the basis of Aadhaar information. Bank's BCs should also be able to undertake Aadhaar enrolment.
- ❖ For the success of the ICT based model, resolving technology related issues is a key. Seamless integration with Core Banking Solution (CBS) needs to be ensured in all the bank branches to reduce the glitches. Infrastructure related to Smart card devices, hand held devices need to be strengthened. Technical glitches need to be addressed quickly and proper care needs to take that it does not stop the banking services in villages for a longer periods.

Table 2. What we plan to achieve by 2013

SR	Particulars	Mar 12-Target	Mar 13-Target
1.	Villages Covered – Branches	24995	26440
2.	Villages Covered – BCs	192249	323699
3.	Villages covered – Other modes	1330	2130
4.	Villages Covered – TOTAL	218574	352269
5.	No Frill A/Cs (No. in millions)	112.51	158.29
6.	Amount in No Frill A/Cs (Amt in INR billion)	74.50	88.72
7.	No Frill A/Cs with OD (No. in millions)	18.36	28.65
8.	No Frill A/Cs with OD (Amt In INR billion)	10.08	16.36
9.	KCCs-Total – No. in millions	27.66	35.04
10.	KCCs-Total – Amt In INR billion	1446.86	1727.75
11.	GCC-Total – No. in millions	3.73	6.12
12.	GCC-Total – Amt In INR billion	42.66	67.15
13.	ICT Based A/Cs – through BCs (No. in millions)	64.17	10.15