

CHAPTER -2

*Reserve Bank of India and
Financial Inclusion*

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RESERVE BANK OF INDIA AND FINANCIAL INCLUSION

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CHAPTER - 2

RESERVE BANK OF INDIA AND FINANCIAL INCLUSION

1. Introduction :

The reserve bank has been giving adequate attention and has stepped in whenever it felt that the banking community as a whole has missed out or not given the desired attention to certain areas. This is the reason why the reserve bank is placing a lot of emphasis on financial inclusion at present has been confined to ensuring a bare minimum access to a saving bank account without frills with a limited overdraft facility to all. The reserve bank has framed guidelines with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with nil or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. Efforts are being made so that all banks give wide publicity to the facility of such no frills account to ensure greater financial inclusion. Banks and financial institutions have to take a lead here for achieving our objective of reaching out to people.

The persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles. We have simplified the KYC procedure for opening accounts for people who intend to keep balance not exceeding rupees fifty thousand (Rs. 50,000) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000) in a year.

The co-operative banks and regional rural banks being local level institutions are well suited for achieving financial inclusion. Being institutions they are ideally suited for achieving financial inclusion. The use of Information Technology (IT) solution for providing banking facilities at people's doorsteps holds the potential for scalability of the financial inclusion initiatives. Many pilot projects have been initiated in various states.

A new liberation branch authorization policy was conveyed to banks in September 2005 with a view to mitigating the problem of regional disparities and to promote financial inclusion. Banks were asked to take steps to open more branches in all the under banked areas. The RBI further advised the banks that while considering applications for opening branches received from banks weightage would be given to banking facilities provided by the banks in un-banked areas performance under priority sector and efforts for promoting financial inclusion. In addition to this the new private sector banks were asked to open 25% of their branches in semi-urban and rural areas.

2. History of Financial Inclusion in India:

All India rural credit committee report recommended creation of state sponsored bank to promote rural penetration. The establishment of state bank of India in 1955, based on these recommendations, Nationalization of 14 commercial banks in 1969 and another 6 in 1980, The establishment of NABARD in 1982, adoption of multi-agency approach involving commercial, co-operative and regional rural banks, Massive branch expansion program to cover length and breadth of the country during 1970 to 1980, fixing targets for priority sector lending covering agriculture, SSI, other priority sector and weaker sections. The implementation of service area approach for lending and subsequently liberalization of the service area concept, administrative interest rates, implementation of government sponsored programs etc. The first SHGs linkage program was launched in 1992, which gathered momentum from 1999 onwards.

3. Strategy for Financial Inclusion :

Improvement in the existing formal credit delivery system.

Taking measures to improve credit absorption capacity.

Evolving new model for extending outreach.

Leveraging on technology based solution.

Initiatives by Reserve Bank of India and Government.

Since April 2005 the RBI has given directives to the banks, from time to time, regarding action / initiatives to be taken for financial inclusion. The directives given to the banks in the country are briefly summarized below.

4. Committees to prepare strategy / plans :

The RBI had set up a committee on financial inclusion to prepare a strategy of 'financial inclusion', for implementation under the chairmanship of Dr. C. Rangarajan, chairman of the Economic advisory council to the prime minister _____ the terms of reference of the committee included.

- To study the pattern exclusion from access to financial services disadvantaged by region, gender and occupational structure.
- To identify the barriers confronted by vulnerable group in accessing credit and financial services including supply demand and institutional constraints.
- To review the international experience in implementing policies for financial inclusion and examine their relevance / applicability in India.

The committee has since submitted its report and the main recommendations are given in the annexure.

RBI had also set up yet another committee in January 2006 with a view to achieving greater financial inclusion and provision of financial services in the Northeastern sector (NER) under the chairmanship of Smt. Usha Thorat, deputy governor.

5. RBI Initiatives :

5.1) Opening of "No frill" accounts:

A basic bank account is an important means of dealing with financial exclusion and is a gateway to wider mainstream service this account is designed to meet the banking requirements of people for whom standard deposit account would otherwise be non-accessible. In November 2005, all banks were advised to make available a basic banking "no- frill" account with low or nil minimum balances and charges to expand the outreach of such accounts to vast sections of the population. All banks were advised to give wide publicity to the facility of such 'no frill' account including on other websites indicating the facilities and charges in a transparent

manner. Several banks have since introduced such 'no frill' account with and without value added features. The banks have at the end of March 2005 opened 4, 93,408 such accounts.

5.2) Issue of general purpose credit card:

To extend hassle free credit to bank customers in rural areas, the guidelines on general credit card (GCC) scheme were simplified to enable the customers' access credit on simplified terms and conditions, without insistence on security, purpose or end use of funds. Banks have been asked to introduce a general purpose credit card facility up to Rs.25000 at their rural and semi urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flow, the limits are sanctioned without insistence on security or purpose. The interest rate on the facility is comparatively deregulated.

5.3) Printed material in regional language:

Proper and effective communication with potential customers is an important factor in propagation financial inclusion. If the bank does not communicate with the customer in the language known to him, he may not be in a position to avail of banking facilities. This sector is highly relevant in a country like India where there are many languages. In order to ensure that the banking facilities percolate to the vast section of the population. RBI advised banks in December 2005 to make available all printed material used by retail customers including account opening form, pay in slips, and pass books etc. in triangular form i.e. in English, Hindi, and the concerned regional language.

5.4) Simplification of KYC norms:

The order to ensure that the persons belonging to low income group do not encounter difficulties in opening accounts. The know your customer (KYC) procedures for opening accounts has been simplified for those persons with balances not exceeding Rs.5000 and credit in the accounts not exceeding Rs.1,00,000 in a year. The simplified procedure allows introduction by a customer on whom full KYC drill has been followed.

5.5) One time settlement scheme:

A simple mechanism for one time settlement of loans with principle amount up to Rs.25000 which has become doubtful and loss assets as on September 30, 2005 was suggested for adoption. In case of loans granted under government sponsored schemes, banks were advised to frame separate guidelines following a state specific approach to be evolved by the state level bankers committee (SLBC). Banks have been specifically advised that borrowers with loans settled under one time settlement scheme will be eligible to re-access the formal financial system for fresh credit.

5.6) Use of business facilitators and correspondents:

To ensure greater financial inclusion and for increasing the outreach of the banking sector, RBI decided in January 2006 to allow banks to use the services of NGOs / SHGs Micro finance institutions and other civil service organizations as intermediaries in providing banking services through the use of business facilitator and correspondent mode. Under this model banks can use the services of NGOs / farmers clubs, co-operative, community based organizations, IT enabled rural outlets of corporate entities, post offices, insurance agents, well-functioning Panchayats, village knowledge centers, agricultural clinics /Agricultural business centers, Krishi Vigyan Kendras and KVIC/ KVIB units depending upon the comfort level of the bank.

The services to be rendered are identification of borrowers; collection and preliminary processing of loan applications including verification of primary information /data; creating awareness about saving and other products and education and advice on managing money and debt counseling; processing and submission of application to the banks; promotion and nurturing Self-help group/Joint liability groups; post sanction monitoring; follow up for recovery.

5.7) Credit counseling centers :

In the light of the recommendation of the two working groups to suggest measures for assisting distressed farmers (Chairman Shri S. S. Johl) and examine the procedures and process for agricultural loans (chairman Shri C. P. Swarnkar), Reserve Bank of India advised the convener banks of state / union territory level bankers to setup on

pilot basis, in any one district a financial literacy cum credit counseling centre in the state / union territory under their jurisdiction.

Some of the banks in the country like Bank of India, ICICI Bank and Bank of Baroda have already taken initiatives to open credit counseling centres in the country the councilors assist people on face basis as well as those contacting over telephone or by means letters. Customers facing credit problems arising out of multiple credit cards, personal loans, housing loans and loans from societies approach counseling centres for advice and guidance the councilor guide their customers and on their behalf, take up with the banks concerned for rescheduling of loans.

5.8) Customer friendly products :

The requirements of rural customers are varied. It differs from area to area. The banks were advised to develop suitable products as per requirements of the people in the area with the use of technology.

5.9) Suitable manpower :

Deploy suitable manpower; committed specialized staff, which are familiar with the local condition and understand the problem of rural population and will be at home in the non-urban environment in which they have to operate.

5.10) Information technology (IT) initiatives:

The UCBs role of playing is very important in bank sector. The Reserve Bank has been encouraging the use of ICT solutions by banks for enhancing outreach with the help of their business correspondents.

Recognizing that IT-enabled services have the potential for improving financial inclusion, the reserve bank urged the banks in May 2007 to scale up their financial inclusion efforts by utilizing appropriate technology.

Banks have introduced many new products and system to take advantage of technology: some of which are highlighted below:

i) Use of ATMs:

Automated teller machines have come to occupy a key component of retail channel strategy adopted by the banks. To reduce the transaction cost some of the banks are sharing their ATMs among themselves and there is a need to extend shared network of ATMs further for the use of financially excluded people.

ii) Plastic money:

The payment card segment in India has registered huge growth in the past few years. Use of cards has become number one product in banking. A type of plastic money includes ATM card, debit card, credit card, debit cum ATM card, charge card, smart card, cobranded card etc.

iii) Electronic clearing services (ECS):

At present the banks are giving these facilities only in main centres. In rural areas normally the agricultural proceeds are paid through cheques by the marketing federations or FCI. The banks can extend these services at least to district headquarters and further to mandal / Block level.

IV) Tele banking:

This delivery channel through telephone call make the information available which is not location specific and is ideal for the customer located even in remote areas.

v) Core banking:

The total branch automation now core banking solution is the buzzword. Today, bank's environment including several delivery channel including ATMs, POS, kiosks, internet banking, mobile banking, etc. The key challenge is to provide the bank customer with complete and consistent service irrespective of the channel chosen. Core banking solution will successfully provide any time anywhere banking to the customers at most competitive rates at all the branches including the branches in rural and semi urban areas.

vi) Real time gross settlement (RTGS):

RTGS is a centralized payment system in which inter-bank payment instructions are processed and settled, transaction by transaction and continuously throughout the day as and when the instructions are received and finally accepted by the system. The RTGS uses INFINET and SSFMS platform.

vii) Electronic fund transfer (EFT):

The facility is to be extended to all the Centre's to enable the financially excluded people to get immediate transfer of funds in to their accounts.

viii) Mobile banking:

SMS base mobile banking is more suitable in Indian context. It can be deployed faster with less infrastructure costs. It has utility in micro payments, informal delivery and micro credit phenomena. It can penetrate the market much faster and replace debit card / credit cards.

ix) Western union money transfer (WUMT):

This is transfer of funds from abroad to our country by using 10 digits passwords. This facility extended by the network of post offices is found to be most successful. The same can be extended to uncovered areas for the benefit of financially excluded people whose family members, relatives are working & settled abroad.

x) Establishment of rural kiosks / common service Centre:

To outreach IT enabled services to rural areas, the concept of common service Centre basically "Rural computer kiosks" is being explored. In this scheme first preference is given to self-help groups or educated youth to start "Rural Kiosks". The rural kiosks offers basket of government to citizen and business to customer services, which include acceptance of electricity bills, telephone bills, house taxes, update market information, birth certificates, land records, internet services etc. Government is planning to digital expansion of 100000 rural kiosks by 2008 through public private partnership. This will provide employment to 100000 people directly and 2/3lakh additional jobs in rural areas with total outlay of Rs.5742 crs.

xi) E- purse:

E-purse holds electronic monetary value on a computer chip on a card; usually smart card. It records the value of each transaction and the monetary value is deducted from the computer chip on the card. The prepaid stored value card is referred as e-purse.

6 Government Initiatives :

The first was to establish a financial inclusion in a Central Government, RBI and NABARD in India. The general banking concepts to various target groups, including, school and college going children's, women, rural and urban poor peoples, defence personnel and senior citizens. The government policy is very important in financial inclusion.

The first was to establish a financial inclusion fund with NABARD for meeting the cost of developmental and promotional interventions. The second was to establish a financial inclusion technology fund to meet the costs of technology adoption. The overall corpus for each fund was Rs.500crore, with initial funding to be contributed by the Central Government, RBI, and NABARD.

- i. Bharat Nirman has been launched to.
 - Bring an additional 10 lakh hectares of land under assured irrigation.
 - Connect all the villages with population over 1000 with a road.
 - Construct 60 lakh additional houses for the poor.
 - Provide drinking water and provide telephone connectivity to over 66000 villages.
- ii. The National Rural Employment Guarantee Scheme (NREGS) launched in 2006 is aimed at generating wage employment through works that develop infrastructure base in areas affected by drought, deforestation and soil erosion.
- iii. The National Rural Employment Health Mission (NRHM) is expected to provide good health care facilities to the rural poor so as to increase labour productivity and avoid man-day loss due to ill health.
- iv. Sarvashiksha Abhiyan Programme is expected to increase rural literacy which in turn results in increased productivity.

- v. Nation horticulture mission is expected to augment the horticulture production, which may indirectly lead to better agricultural storage /marketing facilities.

For India, inclusive growth becomes an important agenda in view of high growth number in recent times and the need for distribution of economic benefits to wider spectrum of people. Banks being major financial intermediaries in the growth process, it becomes imperative that they engage actively in promoting sustainable strategies of inclusion growth.

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