



Welcome...



The Scenario of Financial inclusion in India

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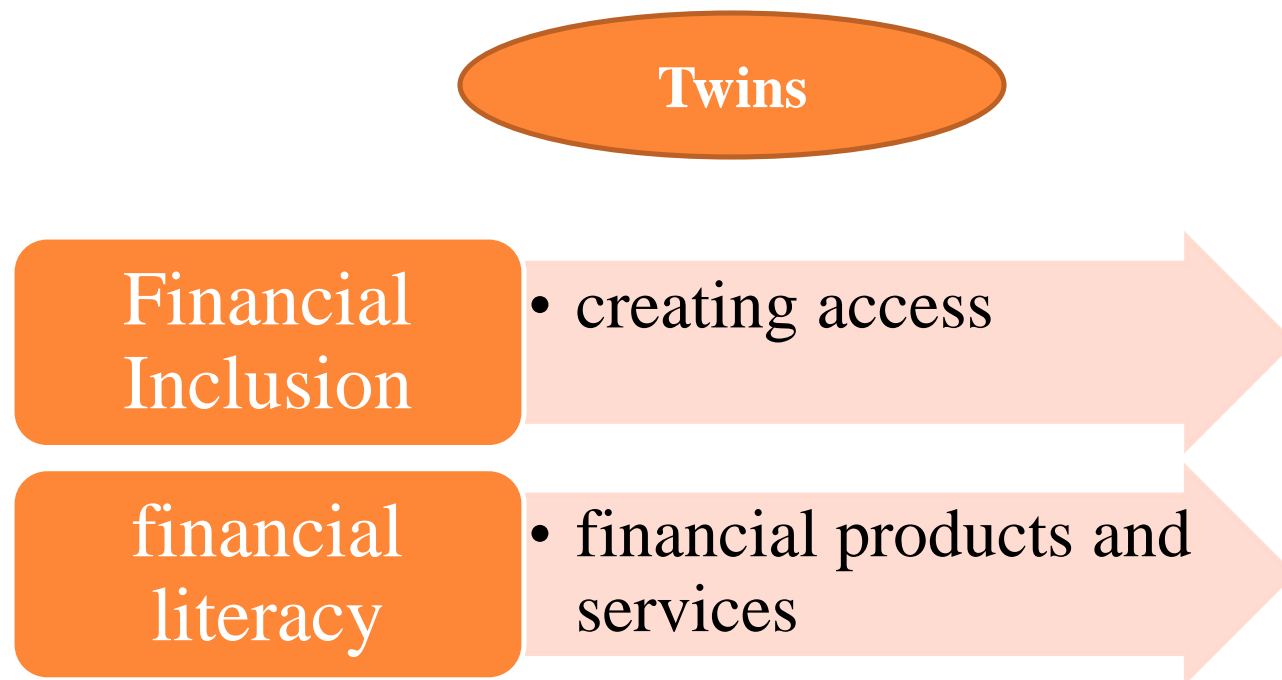
Inclusive growth

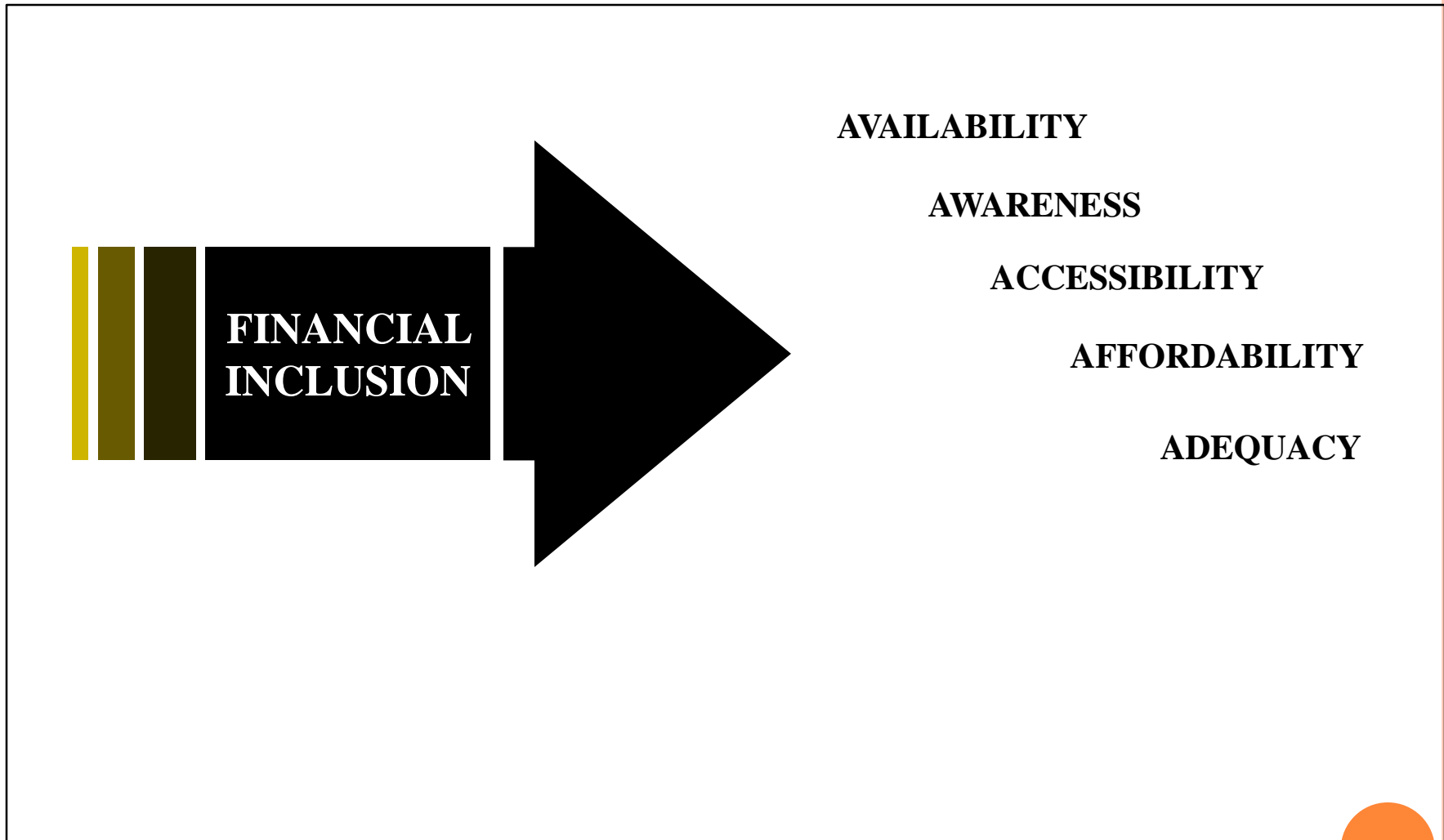
“Faster, More Inclusive and Sustainable Growth”
-12th five year plan



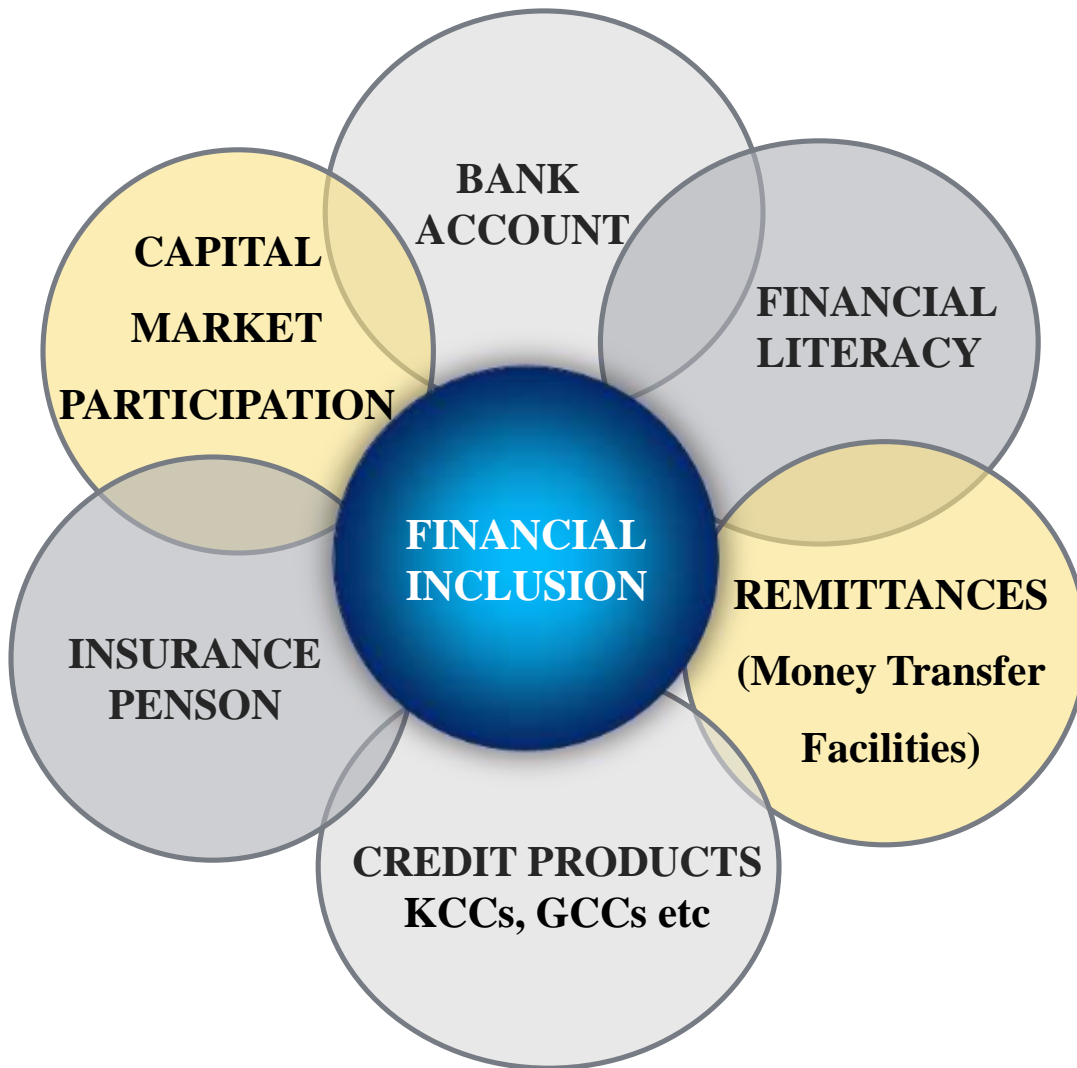
What is financial inclusion

- The process of ensuring access to financial services and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.
-(Rangarajan committee)





COMPONENTS



OBJECTIVES

- **Economic:**
 - Equitable growth
 - FIs can boost the development process
- **Mobilisation of Savings**
 - Capital formation and economic growth
- **Larger Market for the financial system**
 - Emergence for new players
 - Participation of retail investors
- **Social**
 - Poverty Eradication
 - Financial Literacy
- **Sustainability**
 - To improve income generation by low income groups
- **Institutional**
 - Effective implementation

WHY FINANCIAL INCLUSION?

- Turns savings into investment.
- Insurance/investment/savings =Protects family against unfortunate circumstances. Child future secured.
- Income inequality falls more rapidly in areas that have more developed financial intermediaries (banks, insurance companies).
- In the 80s, countries that focused on providing easy financial services to small businessmen =became large economies today be it Japan, South Korea or USA.
- Financial inclusion = cheaper loans=faster growth of agri and small business.
- IF all of the government subsidy/benefit payments are done via netbanking/e-transfer then Rs.1 lakh crore rupee will be saved per year in terms of manpower-time-paperwork-leakages. [As per Mckinsey research.]

- If there are no formal channels to save money (like Bank), then low income households are more likely to fall victim to Ponzi schemes like Saradha chit fund in Bengal.
- If everyone has bank account=> lowers the transaction costs, paperwork and time. (Compared to counting currency notes, maintaining records, manually recovering money vs cheque drop box and so on.)
- Economic well-being of the poor people also ensures social harmony, they'll not fall into brainwashing by Maoists/Secessionist/Extremist elements.
- Women empowerment angle related closely with financial inclusion angle

INDIAN STORY

- The Term **Financial Inclusion** In India was **coined in 2004** by the then RBI Governor **YV Reddy**.
- In 2008, the Government of India appointed a **Committee on Financial Inclusion** under the Chairmanship of **Dr. C .Rangarajan**

- ❖ **Aprox. 50% of people in India don't have bank accounts**
- ❖ **90 % of the people do not have borrowings from the banks**
- ❖ **11% of bank branches in India are limited to the metros.**
- ❖ **38% of the branches of the SCBs are in the rural areas**

- ❖ **Nearly 85% of the population don't have access to insurance services.**

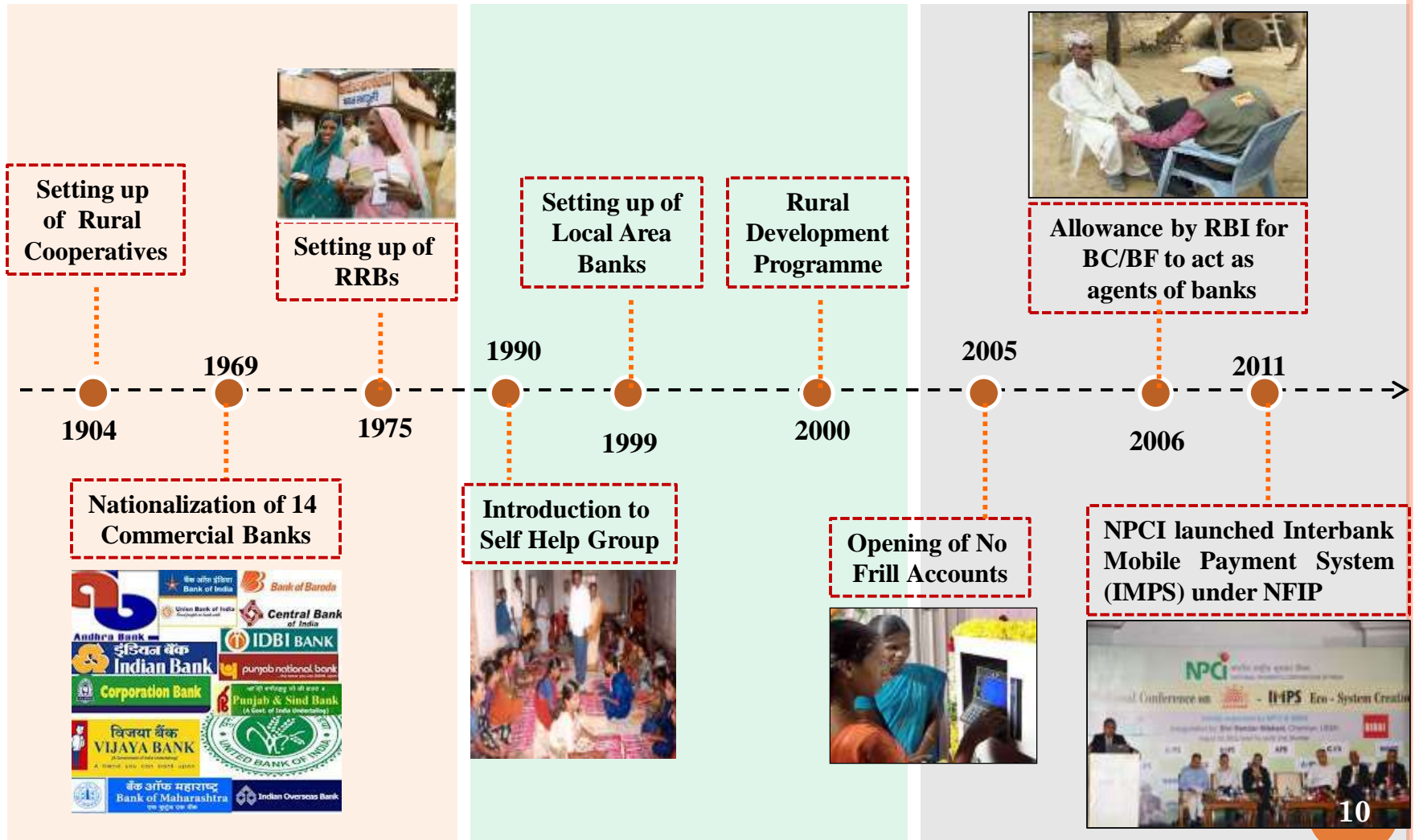
- ❖ **FII's hold a stake 10.45% in the Indian capital market**
- ❖ **2% of retail investors in India participate in the Indian capital market**

FINANCIAL INCLUSION : IMPORTANT MILESTONES

PHASE I

PHASE II

PHASE III



Source: rbi.org.in

Slide credits: Dhruv Mahajan ,ICRA

THE TARGET GROUPS

People who are Not Availing Financial Services



RURAL WOMEN



SENIOR CITIZENS



FARMERS



MIGRANTS



SOCIALLY EXCLUDED GROUPS

Why???

DEMAND SIDE

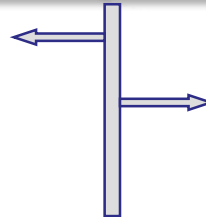
Financial Illiteracy

Lack of Knowledge of products

Dependence on informal sources of credit

Low Incomes

Social Exclusion



SUPPLY SIDE

Financial Inclusion

Inaccessibility of Bank

Cumbersome Banking procedure

Inappropriate Design of products & services

High transaction cost and attitude of bank officials

Estimated number of indebted farmer households in each state

State	NSSO 59th Round	%age	NSSO 70th Round	%age	Increase/Decrease (percentage)
Andhra Pradesh	49493	82	33421	92.9	(+10.9)
Arunachal Pradesh	72	5.9	206	19.1	(+3.2)
Assam	4536	18.1	5995	17.5	(-0.6)
Bihar	23383	33	30156	42.5	(+9.5)
Chhattisgarh	11092	40.2	9538	37.2	(-3.0)
Gujarat	19644	51.9	16743	42.6	(-9.3)
Haryana	10330	53.1	6645	42.3	(-10.8)
Himachal Pradesh	3030	33.4	2457	27.9	(-5.5)
Jammu & Kashmir	3003	31.8	3463	30.7	(-1.1)
Jharkhand	5893	20.9	6464	28.9	(+8.9)
Karnataka	24897	61.6	32775	77.3	(+15.7)
Kerala	14126	64.4	10908	77.7	(+13.3)
Madhya Pradesh	32110	50.8	27414	45.7	(-5.1)

Estimated number of indebted farmer households in each state

State	NSSO 59th Round	%age	NSSO 70th Round	%age	Increase/Decrease (percentage)
Maharashtra	36098	54.8	40672	57.3	(+2.5)
Manipur	533	24.8	421	23.9	(-0.9)
Meghalaya	103	4.1	84	2.4	(-1.7)
Mizoram	184	23.6	47	96.2	(-17.4)
Nagaland	294	36.5	65	2.5	(-34.0)
Odisha	20250	47.8	25830	57.5	(+9.7)
Punjab	12069	65.4	7499	53.2	(-12.2)
Rajasthan	27828	52.4	40055	61.8	(+9.4)
Sikkim	174	38.8	97	14.30	(-24.5)
Tamil Nadu	28954	74.5	26780	82.5	(+8.0)
Tripura	1148	49.2	559	22.9	(-26.3)
Uttar Pradesh	69199	40.3	79081	43.8	(+10.5)
Telangana	-	-	22628	89.1	(+89.1)
Uttarakhand	644	7.2	5387	50.8	(+36.6)
West Bengal	34696	50.1	32787	51.5	(+1.0)
Group of UT's	372	50.8	267	37.2	(-13.6) ¹⁴
All India	434242	48.6	468481	51.9	(+3.3)

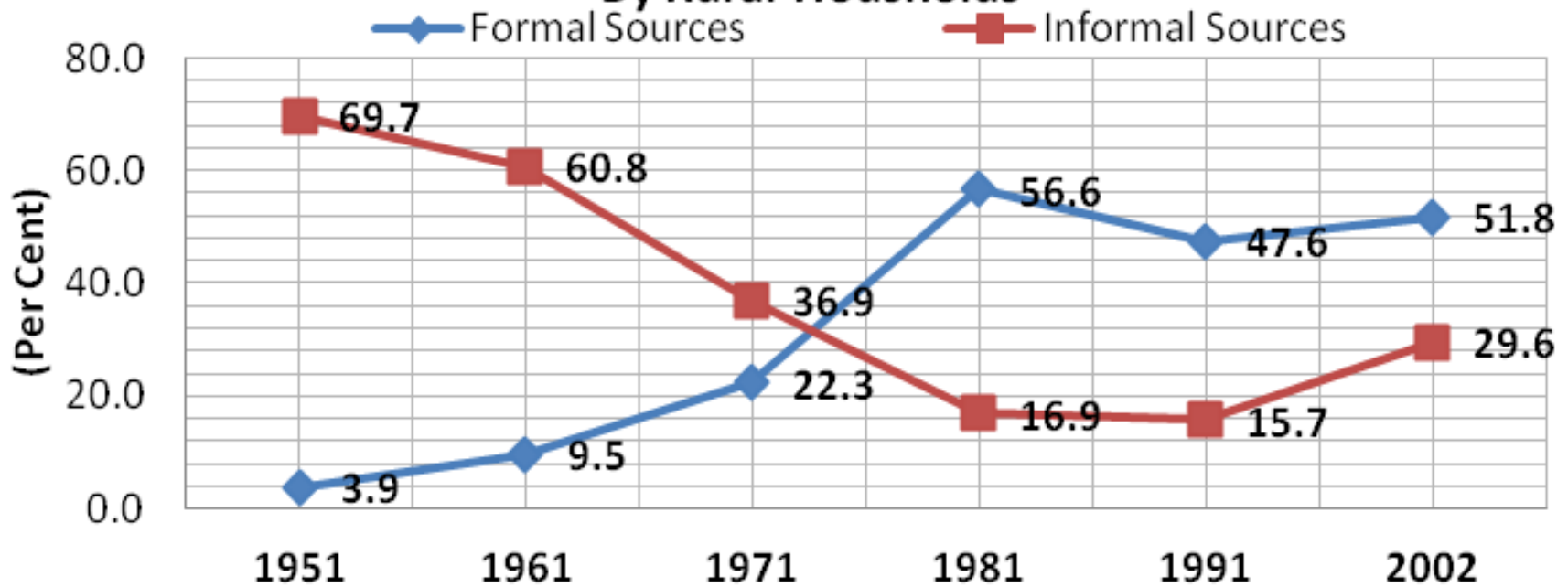
Percentage of Indebtness by Household (HH) types

HH_Type	Total_HHs	Indebted_HHs	% of Indebtedness
Self employed in agri.	66,024,042	23,349,002	35.36%
Self employed in non-agri.	17,670,514	6,045,996	34.22%
Regular wage	15,823,111	4,758,255	30.07%
Casual labour in agri.	25,039,590	7,241,771	28.92%
Casual labour in non-agri.	20,815,944	5,991,254	28.78%
Others	10,765,496	1,696,366	15.76%
Rural	156,138,697	49,082,643	31.44%
Self employed	26,253,190	6,489,564	24.72%
Regular wage	33,884,270	8,375,063	24.72%
Casual labour	12,399,688	3,032,806	24.46%
Others	11,187,763	834,764	7.46%
Urban	83,724,911	18,732,197	22.37%

Per 1000 distribution of outstanding loans by source of loan

Source of Loan	59th Round	%age	70th Round	%age	Increase/Decrease (percentage)
Government	25	2.5	21	2.1	(+0.4)
Co-operative Society	196	19.6	148	14.8	(-4.8)
Bank	356	35.6	429	42.9	(+7.3)
Employer/Landlord	9	9	8	8	(-1)
Agricultural/Professional Moneylender	257	25.7	258	25.8	(+1)
Shopkeeper/Trader	52	5.2	29	2.9	(-2.3)
Relatives & friends	85	8.5	91	9.1	(+0.6)
Other	21	2.1	16	1.6	(-0.5)
All	1000	100	1000	100	

Access to Formal and Informal Sources of Credit- By Rural Households



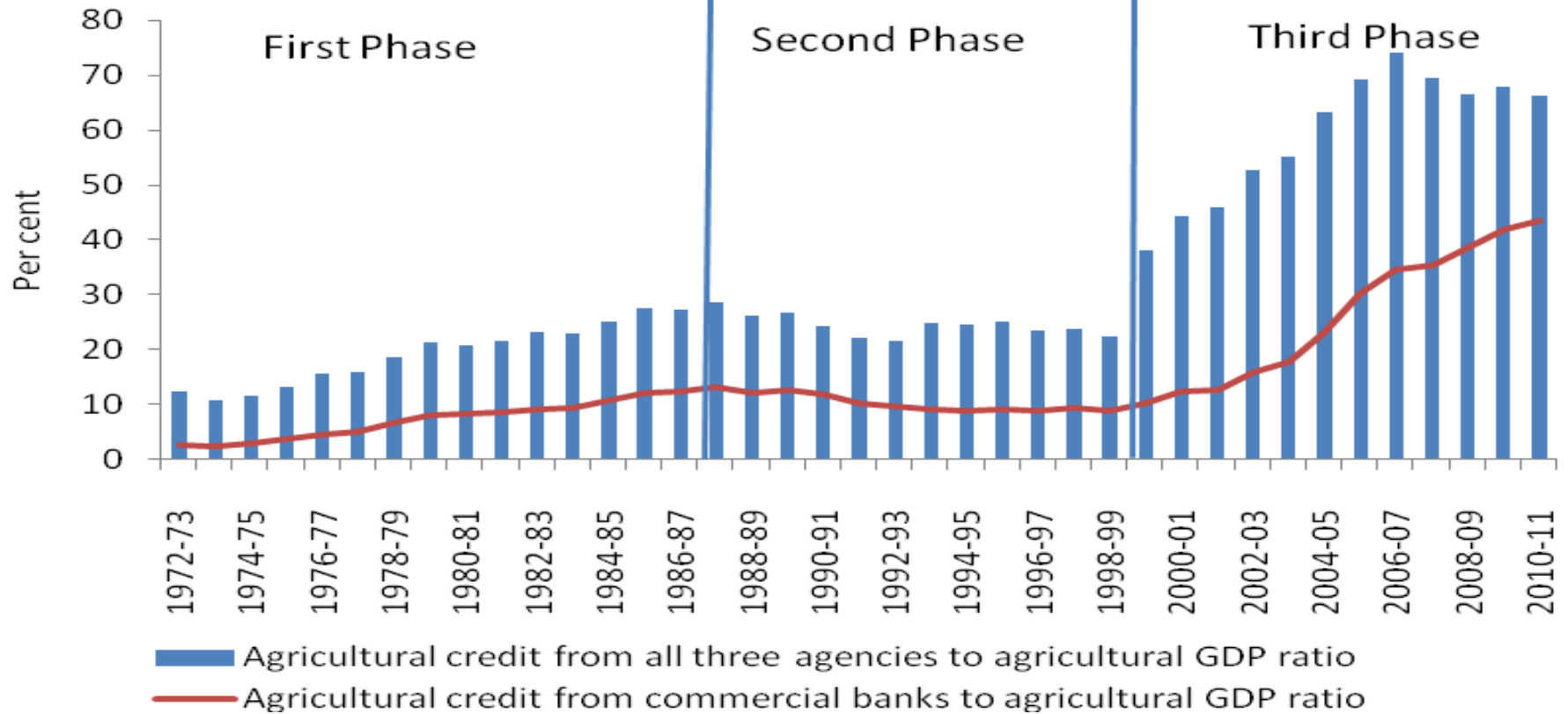
Source: RBI Working Paper : 05/2013

Position of households availing banking services

As per Census 2001				As per Census 2011		
Households	Total number of households	Number of households availing banking services	Percent	Number of households availing banking services	Number	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Year	% of Rural Population to Total Population	Bank office		% of Rural banks to Total Banks
		Rural	Total	
1971	75.1	4817	13622	35.4
1991	65.4	35206	60220	58.5
2001	72.2	32562	65919	49.4
2005	71.3	32082	68355	46.9
2009	70.4	31829	80514	39.5
2011	70.2	33779	90775	37.2
2012	71.0	36334	98536	36.9

Credit Intensity in Agriculture



Profitable models for financial inclusion(ramon,2011)

- (a) Offering a clear customer proposition and customized bouquet of products:-
- 1 Advice on monetary issues, problems, needs and plans
 - 2 Savings cum Overdraft account;
 - 3 Remittance-products;
 - 4 Kisan Credit Card/General Credit Card
 - 5 Disbursements of Grants & Financial Assistance awarded by & in accordance with the Central Govt., State Govt., Local authorities, other Funding agencies, NGOs, etc.;
 - 6 Micro-Credits as per Bank's own schemes;
 - 7 Govt. directed Priority sectoral lending
 - 8 Entrepreneurial Credit
 - 9 Micro-Insurance.
- (b) Scalable business model with simple, user friendly low-cost technologies:-
- (c) Collaborate with local agents and for-profit companies:-.
- (d) Banks need to learn from both corporate India and the informal sector:
- (e) Subsidiary model to drive down costs:-
- (f) Strategy to gain benefits from Government scheme of MGNREGA :-,
- (g) Innovate and test-market pilot products/services:-

Measures

RBI MEASURES IN FINANCIAL INCLUSION

- No-Frill Accounts
- BC / BF Model
- Liberalized branch expansion
- 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
- Relaxed KYC norms
- Roadmap for Banking Services in unbanked Villages



Business facilitator model

Agencies involved: NGOs, Cooperatives, Community based organisations, Post offices, Panchayats, village knowledge centres, agri-clinics / agri-business centres, KVKs.

Services include (Non financial services):

- Identification of borrowers
- Collection and preliminary processing of loan applications
- Creation of awareness about savings
- Processing and submission of application to banks
- Promotion and nurturing of SHGs
- Post sanction monitoring



Business Correspondent Model

Agencies involved: NGOs / MFIs ,NBFCs, Government/
corporate supported IT enabled outlets.

Activities(Financial Services):

- Disbursal of small value credit
- Recovery of principal / collection of interest
- Collection of small value deposits
- Sale of micro-insurance / mutual fund products / pension products
- Receipt and delivery of small value remittances

Efforts of NABARD



To support developmental and promotional activities-

- ❑ Financial Inclusion Promotion (FIP) Fund
- ❑ Financial Inclusion Development Fund (FIDF)
- ❑ SHG-bank linkage model

Purposes under Financial Inclusion Promotion Fund

- For meeting the cost of developmental and promotional interventions
- Capacity building inputs to BFs and BCs
- Technical and financial services for Resource Centers, Farmers' Service Centers and Rural Development and Self Employment Training Institutes
- Promotion, nurturing and credit linking of Self Help Groups (SHGs)
- Capacity building of personnel of NABARD, banks, Post Offices, State Govt. Depts , MFIs, NGOs, members of SHGs

Financial Inclusion Technology Fund

- Encouraging user friendly technology solutions
- Creating a common technology infrastructure with comprehensive credit information
- Funding support to technologies facilitating the documentation for processing of loans
- Conduct of studies, consultancies, research, evaluation studies relating to technological interventions for financial inclusion

Programmes for Marginal farmers

- Massive programme for financing minor irrigation structures
- Financing dairy animals and dairy infrastructure
- Establishment and encouragement of viable institutional structures through grants
- Development of road and power infrastructure and watershed development in the identified areas
- Technical counseling and farm advisory services



Rupay Debit Card Accident insurance Cover Overdraft Facility

Phase 1: 2014 to 2015 (15th August)

1

**Bank service
in 5kms**

2

**Account for
every family**

3

**Financial
Literacy**

Phase 2: 2015 to 2018 (15th August)

4

**Micro
insurance**

5

**Credit Guarantee
Fund**

6

**Pension
Transfer**

SIX PILLARS

1.Service area	<ul style="list-style-type: none">•Country will be divided into sub-service areas (SSA)•Each SSA will cover 1000-1500 households•Each household will have a banking outlet within 5 km distance.
2.Account	<ul style="list-style-type: none">•Each household will have atleast one bank account.•Even minors of 10 years and above age, can open.•With a Rupay debit card•Rs. 1 lakh accident cover per account. Conditions:<ul style="list-style-type: none">• 1 individual and multiple bank accounts = still maximum 1 lakh cover• 1 family, husband-wife separate accounts= each gets 1 lakh cover.•If I open account before 26th January 2015, you'll get additional Rs.30,000 life insurance cover.•If your good credit history for first 6 months=>Rs.5,000 overdraft facility. If same family has multiple accounts then only 1 account gets this benefit- first preference to woman's account.
3.Literacy	Financial literacy programmes to make people aware of benefits of saving and investing money properly.

Phase 2: Next Three pillars (2015 to 2018)

4.CGF	Credit guarantee fund- to cover losses in overdrafts. (Because some villagers might use overdraft for desi liquor and then default in repayment)
5.Insurance	If JDY account holder is interested, he can buy micro insurance product.
6.DBT	<ul style="list-style-type: none">•Earlier Government launched Swavalamban Yojana to make unorgnized sector workers join NPS scheme.•Those people will get NPS-pension directly in these Jan-Dhan accounts.•Government will also try for direct benefit transfer (DBT) i.e. sending scheme-subsidy money directly to beneficiaries' jan-dhan accounts.

Earlier approaches

- Focus on village(popln. >2000)
- Only rural
- Focus only on account opening
- No inter operability
- No mobile banking
- Cumbersome KYC
- No minimum guideline for bank mitra
- Monitoring left to banks
- No financial literacy
- No overdraft
- No grievance cell

New approach(PMJJDY)

- Focus on household and SSA
- Both rural and urban
- Integrate with online mode DBT,credit,insurance,pension
- Inter operability via rupay ,aadhar
- Mobile wallet USSD based account
- Simplified KYC
- Minimum guideline for bank mitra remuneration 5000 rs.
- Mission mode monitoring of campaign like fashion at all levels of govt.
- Financial literacy cell
- Overdraft there
- Grievance cell at SLBC level in respective states

Demand side barriers are

- (a) Low literacy levels, lack of awareness and/or knowledge/understanding of financial products;
- (b) Irregular income; frequent micro- transactions;
- (c) Lack of trust in formal banking institutions; cultural obstacles (e.g., gender and cultural values).

Supply side barriers are

- (a) Outreach (low density areas and low income populations are not attractive for the provision of financial services and are not financially sustainable under traditional banking business models);
- (b) Regulation (frameworks are not always adapted to local contexts),
- (c) Business models (mostly with high fixed costs); Service Providers (limited number and types of financial service providers)
- (d) Services (non-adapted products and services for low income populations and the informal economy);
- (e) Age Factor (Financial service providers usually target the middle of the economically active population,

RECOMMENDATIONS:

a) Every adult (Above 18 years) of our country should have a bank account by January 1, 2016. This account will be known as **Universal Electronic Bank Account (UEBA)**.

(b) Every resident should be issued an account at the time of receiving Aadhaar number (UIDAI) by a bank itself.

(c) It recommends unified Financial Redress Agency under Finance Ministry for customer grievances.

(d) It recommends abolition of interest subsidies and loan waivers. It suggested that government should transfer benefits directly to farmers.

(e) Permission to banks for pricing farm loans below base rate should be withdrawn.

(f) Statutory liquidity ratio has outlived its utility for both Banks and NBFCs. So, it needs to be scrapped.

(g) It recommends raising priority sector lending cap for banks to 50 per cent from the current 40 per cent.

CONTD:

(h) It also proposed for creation of a Payment Bank (PB) ,small bank,wholesale bank to provide payments services including credit, insurance and risk management products.

(J) Panel also suggested for the creation of State finance regulatory commission (SFRC). All existing regulators at state level should be merged into SFRC.

(k) Each districts should have a total term life insurance sum assured to GDP ratio of at least 30%.

KISAN CREDIT CARD

- KCCS aims at extending adequate and timely support to the farmer from banking system
- In order to address the problems in purveying credit for agriculture
- Great resilience of Indian agriculture to vagaries of weather
- Non-institutional source were mainly approached by the farmer



BACKGROUND

- **Crop loan:**

1. To meet production need of farmer

2. No provision for consumption need/
contingent need

- **Resulting in diversion of production credit**



- **RBI set up Shri R. V. Gupta committee in December 1997**
- **RBI directed all PSBs, RRBs and Co-operative banks to introduce KCC scheme**
- **Scheme formulated by NABARD**
- **KCCS launched in August, 1998**



OBJECTIVES


- Adequate and timely credit to farmers
- Short term production need
- Working capital requirement for allied and ancillary activities
- Contingency expenditure and other needs



SALIENT FEATURES OF THE KISAN CREDIT CARD (KCC) SCHEME

- Farmers to be provided with a Kisan Credit Card and a pass book or card-cum-pass book**
- Revolving cash credit facility within the limit**
- Limit to be fixed on the basis of operational holding, cropping pattern and scale of finance**
- Entire production credit needs for full year plus ancillary activities**



- Sub-limits may be fixed at the discretion of banks
 - Repaid within a maximum period of 12 months
 - Card valid for 3 years subject to annual review
 - Credit limits could be enhanced to take care of increase in costs, change in cropping pattern, etc
 - Conversion/ rescheduling in case of crop damage due to natural calamities
- 

- **Security, margin, rate of interest, etc. as per RBI norms**
- **Operations may be through issuing branch (and also PACS in the case of Cooperative Banks) and through other designated branches at the discretion of bank**
- **Withdrawals through slips/ cheques accompanied by card and passbook**



ADVANTAGES OF THE KISAN CREDIT CARD SCHEME

- Access to adequate and timely credit to farmers
- Full year's credit requirement of the borrower taken care of
- Minimum paper work and simplification of documentation for fund drawl from the bank
- Flexibility to draw cash and buy inputs
- Assured availability of credit at any time enabling reduced interest burden for the farmer
- Facility for 3 years subject to annual review and provision for enhancement
- Flexibility of withdrawal from other branches



ELIGIBILITY

1. Existing borrower having a good track record for the previous two years
2. Whose requirement is Rs. 5000 and above, (except Uttranchal where it is Rs. 1000 only)
3. Even new borrower can be financed , provided the bank is satisfied about the credit worthiness



NEW TYPES OF INSTITUTIONS:(NICHE BANKING)

- **Payment banks(DD and remittance):**
- Minimum paid up capital of 100 crore
- Promoter initial minimum investment of 40% locked for 5 years
- No non banking operation
- Comply with CRR,SLR,basel1,CAR(15%)
- Minimum 25% branches in rural area
- Max deposit of 1 lakh
- Entity with minimum 10 years of experience needed to apply for opening bank.
- Max foreign shareholding 74%(cumulative) not more than 10% for anyone.
- No loan facility and no bank allowed
- **Small banks:**
- all as above plus loan facility but 50% of loan book must be less than 25 lakh and bank allowed ,stiffer PSL norms.

CONCLUSION:

- More innovation in the form of business facilitators and correspondents will be needed for banks to increase their outreach to ensure financial inclusion.
- Biometric ATMs, the quickest way to financial inclusion.
- Access to financial services and Financial Education must happen simultaneously
- It must be continuous and must target all sections of the population simultaneously

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