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CNBC TV18

BUILDING CAPACITY FOR SUSTAINABLE FINANCIAL INCLUSION

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BUILDING CAPACITY FOR SUSTAINABLE FINANCIAL INCLUSION

Introduction:

Financial Inclusion is not a new dispensation. Bank Nationalisation in 1969 and the tremendous push for the branch building which followed in its wake were attempts at including the excluded. Despite geographical and functional reach of the Commercial Banks, large numbers of people remain excluded. Small and Marginal farmers, women, unorganised sector workers, artisans, self-employed, unemployed, pensioners, etc. remain excluded from the opportunities and services provided by the formal financial sector (Reserve Bank of India).

Financial Inclusion is defined by the RBI "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost from Mainstream financial institutions.

The World bank (2012) Findex Survey on, "Measuring Financial Inclusion Indicators" World bank Policy Research Working paper #6025 states that in India only 35% of adults had access to a formal Bank account, only 2% of adults use a formal account to receive remittances from relatives and 4% use an account to receive government payments. These are 2011 figures and further ground has been covered, but the challenges still remain.

Neeti Foundation Initiative:

Neeti Foundation endeavor to provide a non-partisan platform for sharing policy priorities and addressing critical issues for national development. Neeti Foundation in partnership with Reserve Bank of India, College of Agriculture Banking (RBI-CAB), Pune conducted a two-day "Workshop on Financial Inclusion & Financial Capability of Co-operative Banks" on 30-31October, 2014 at RBI campus in Pune.

By way of follow up to the workshop, Neeti organized a Policy Roundtable with international partners, senior officials, state governments, leading professionals from RBI, banking sector, academia and experts.

Neeti Foundation, an independent, not for profit think-tank based in Delhi in partnership with the Government of UK's Department for International Development (DFID), and CNBC Network18 has organized a workshop on "Building Capacity for Sustainable Financial Inclusion" on 29 January 2015.

The purpose of the event was to glean new insights from a range of stakeholders – central bankers, development finance institutions (DFIs), microfinance institutions (MFIs) private sector banks, think-tanks, training institutions, and media – for effective financial inclusion, including implementation of the PMJDY specifically and livelihood promotion generally. The roundtable catalysed a discussion on "last-mile" issues for sustaining financial inclusion - not only for bankers, but also for the beneficiaries - such that there is a focus on infusing greater "capability" behind the bank accounts.

The roundtable was supported by DFID as part of its Poorest States Inclusive Growth Programme (PSIG) which is a £30 million, 7 year project to improve access to financial services to lower income households.

The workshop was kicked off with an introductory address by **Dr Suraj Kumar, Chief Mentor, Neeti Foundation**. In his opening remark he explained, how financial inclusion is an important area of intervention for Neeti, as Neeti has a strong collaboration with Reserve Bank of India on Financial Inclusion.

He further emphasized, how with Pradhanmantri Jan Dhan Yojna (PMJDY), India is home to the largest experiment on grass root economic citizenship. Amongst other things, bank account is a means of identity as well as proof of belonging. PMJDY is an important initiative by the Government of India, However, he cautioned the government not to convert into a target oriented programming, but a self-sustaining initiative, once the bank accounts are opened, how we sustain it will be key to measure its success or failure. While speaking on PMJDY, he said India rating on FINDEX will be improved by 2016 through PMJDY

After the introductory remarks, the plenary session was addressed by **Dr Achintan Bhattacharya, DG, National Institute of Bank Management (NIBM)**. He shared his experience from the Bankers retreat (Gyan Sangam) held by Government of India at NIBM campus a month back. The retreat was attended by Prime Minister Narendra Modi, Finance Minister Arun Jaitley, Reserve Bank of India Chief Prof Raghuram Rajan and all the Banks, Chief all with Chief Economic advisor, Economic expert, institutional head etc.

In his address he emphasized on how Public sector bank plays a crucial role in the financial systems in India. There are 27 public sector banks in India; between them they share 77% of deposits and 76% of advances. The PSU's have a strong nation building agenda and contribute to 82% of the total infrastructure financing, 82% of Agri-lending, and have 33% of the total branches in rural areas. He further explained how the public sector bank has inherent strength in distribution, where, they have 82% of branches, 62% of ATM. The top two national bank State Bank of India and Punjab National Bank have 22crore and 9 crore customer respectively, in total PSU bank enjoys customer loyalty of more than 80%..[1]

He pointed out several issues pertaining to the banking system in India, how it is overburdened with legacies of PSU banks. He emphasized on how the PSU bank should be left alone for taking commercial decision for banking. The government should not let singularly onus on PSU banks for all its welfare initiative.

Further, he explained the issue plaguing the "Health of the Sector"- For weakening health he pointed out two major

issues-(a) Increasingly capability gaps in PSB's, (b) Constraints of government ownership. Further, he pointed out endemic issues affecting the sector- (1) Weak financial deepening and access (2) High intermediations cost, (3) Instability and fragility due to intense fragmentation, (4) Weakening of PSB's- threat to sector efficiency and stability

He spoke on the five key commitments from PSU banks during banking retreat i.e Gyan Sangam held at NIBM:

Differentiate strategic focus:

- Re-orient portfolios for small PSU banks to differentiate, focus on specific niches to build capabilities and to optimise capital.

Build people capabilities

- Invest in capability building and culture change
- Introduce effective performance management systems and incentives

Technology enabled transformation

- Digitise top 30 processes ystems and incentives
- Deepen mobile banking penetration
- Big data and analytics

Strengthen risk management

- Establish rule based underwriting for retail and SME,

[1]Ministry of Finance, Arvind Subramanium, Presentation at NIBM

create early warning signals and multi-channel collections architecture

- Move towards risk based pricing (RAROC)
- Create/strengthen credit bureau (rural, SME, corporate)

Introduce and strengthen partners/non-bank channels

- Provide infrastructure support (AEPS and Rupay enablement) and better manage BCs
- Explore new partnerships to reach the financially excluded

While concluding his remark he has focussed on Seven Point reform agenda for the government at the Gyan Sangam:-

Move from state owned to state linked

- Adopt Nayak committee report: Establish Bank Board Bureau comprising professionals and eminent bankers to appoint and empower individual bank boards
- Set up Bank Investment Committee; transfer government investment in banks to BIC; overtime reduce government ownership to <51%

Fully empower banks on HR decisions

- Recruitment, consequence management and compensation

Create an environment to protect right decisions and minimize interference:

- Minimize CVC/CAG/CBI/RTI related issues

Strengthen and ensure implementation of the legal framework

- DRT/The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFASEI) / willful defaulters

Strengthen and simplify processes for credit insurance

- Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), housing

Eliminate market distortions

- Debt waivers, interest rate caps (agri loans <Rs 3 lakh)

Enabling infrastructure for Digital Banking under Digital India

The next speaker for the evening was **Mr Rohit Bansal, CNBC TV 18**; he spoke about the role of media in promoting financial inclusion, under the extreme pressure of meeting TRP. He talked about the pressures on media houses of TRPs and its influence on their programming and reporting. He spoke about choosing appropriate media avenues for development communication. He gave examples of how local channels could be effectively utilised for local language communication.He spoke about the role of Mobile Technology as an enabler for financial inclusion in the era of 3G/4G. Mobile banking can change the landscape in the financial inclusion sector. He appealed for a quick resolution of RBI-TRAI difference over ownership of the mobile banking system.

Speaking on behalf of DFID India, **Ms Ragini Chaudhary** spoke about 2015 being an exciting year for financial inclusion with Pradhanmantri Jandhan Yojna (PMJDY) making financial inclusion as one of the top priorities for the country. DFID in partnership with SIDBI worked on Financial Inclusion for the last one and a half decade. DFID's current PSIG programme focusses on Policy advocacy, capacity building of institutions/channels for delivery of financial services and women empowerment for the women clients.

She said DFID is conducting a FINSCOPE survey of 4 focus states of UP, MP,Bihar Odisha which will measure levels of financial inclusion in these states..On 26 January 2015, PMJDY was included as a tableau, in India's Republic Day Parade. She said the banks have already met the target for PMJDY. She said we have got positive results for PMJDY, but we need to focus on those who have been left out and for those who have registered themselves under PMJDY, how to sustain it? She explained how financial inclusion starts from building livelihood programme and focus on from access to usage

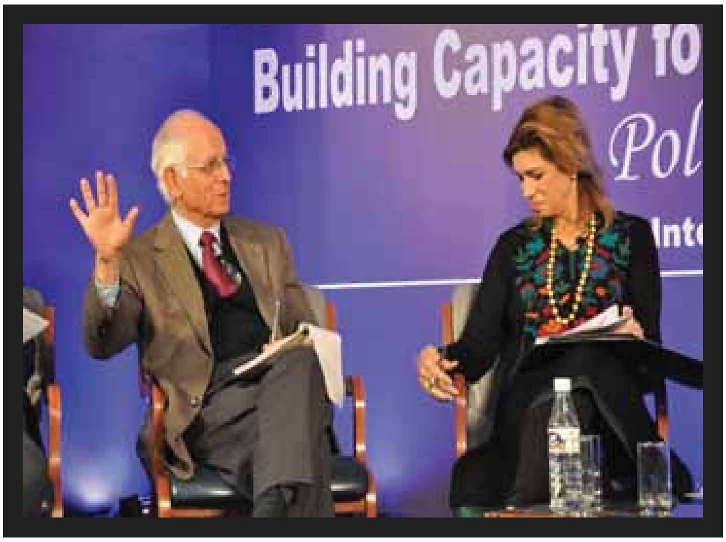
This was followed by a panel discussion, which was chaired by **Dr Subir Gokarn, former Deputy Governor, RBI and current Deputy Director, Brookings India**. The other panellists at the discussion were- Mr Arun Maira, Mentor-IBIN and former Member Planning Commission and Chairman of Boston Consulting Group (BCG), Mr Navin Dhingra from NABARD, Ms Preeti Sinha from Yes Bank Institute, Mr Jagdish Mitra from Tech Mahindra and Dr Suraj Kumar from Neeti Foundation.

Initiating the panel discussion, Dr Gokarn said that, since we have frugal evidence of financial inclusion, therefore, we should be as possible as neutral. He further argued, today, apart from Public sector bank and Private sector Banks, the whole variety of last mile delivery mechanism like Business Correspondent, telecom provider, prepaid wallet, etc. The key to all this will be, how we track on what's working and not working for a Strategy change in delivery mechanism. He said "trust" is key to the financial services. The word "bank" is itself

synonymous with "trust". Surrounding all this will be valued, financial services provides i.e. Social security, livelihood opportunities, old age perspective and if this does not happen, then the value of all these exercises will be limited or diluted.

Speaking at the panel discussion, **Mr Arun Maira, Founder, Mentor IBIN and Former Member Planning Commission**, lauded the Neeti-RBI Report on the Capacity Building of Cooperative Banks. He spoke about last mile delivery issues, building people's capacity to sustain financial inclusion. He said that what happens outside the formal banking sector, if you are below the radar like hawker association and other small industries. He pointed out two biggest problems these groups have- Harassment from Regulators and the complexity of the Financial architecture. He pointed out that the mass homogenization of financial services is problematic with banks. Banking system gets trapped in copying "best practises" and lose sight of the imperative of being context and location specific. This leads to an inordinate concentration on Headquarters reporting and a loss of focus on the customer.

There is a need for collaboration between various players in addressing the last mile for cost reduction along with risk mitigation with last mile. Ways to deals with last mile problems will be community participation in delivery mechanism and deliver these services with check and balances. There is a need for Innovations regarding delivery channels.



He explained how he is associated with IBIN, where he is associated with developing a Method of Collaborative development of solution with assessing needs of people and community to find last mile solutions. He said there is a need for ticking off the boxes-to build a structure, enrolment and quality assurance. There is a need for checks and balances for solutions, with tracking needs of banks and customers as well with sustainability.

Speaking at the panel discussion, **Mr Navin Dhingra, Asst. General Manager, NABARD** spoke about Development Finance Institution (DFI) perspective on Financial Inclusion. He said NABARD has created last mile linkages and creating a rural Eco system for groups and individual for livelihood. He spoke about how sustainable financial inclusion is a tool to reach to sustainable livelihood options. NABARD conduct training for bankers, training them to accept the challenge with rural area business understanding and assessment. NABARD has started a new Joint Liability group, which is a new innovative product from Landless farmers group to cater to them and preparing, literacy models for the person who has to operate the accounts.

Speaking on the panel, **Ms Preeti Sinha, Senior President, Global Convenor- YES Institute**, spoke about the private sector Banks Perspective. She said Yes Bank focuses on Socio economic transformation solution & social banking - economic solution. For Yes bank, Financial Inclusion focuses on 4 areas: Agri business, MSME, Tourism, Renewable energy. She said to her, Financial inclusion is also social inclusion- rural connect through SHG, community. Yes Bank also runs a program for Micro entrepreneur for urban inclusion in Dharavi, Mumbai. For rural inclusion Yes banking is is running "Ruban Inclusion" through Remittance for workers working in urban areas and send funds to their dependent back home. Yes bank is running a Yes Leap programme where Banking correspondent has been linked to 65000 SHG. In SME's sector Yes bank has launched "Sahej Micro ATM"

Yes Bank is developing a "KIVA model" a crowd funding model for financial inclusion. She said there is a clear need for the Collateral Fund for Urban Micro entrepreneur to upscale entrepreneurship for financial inclusion. She further said there is a clear lack of Data and Mapping of India Financial Services and we need to pay immediate attention to this.

Speaking at the Panel discussion, **Mr Jagdish Mitra, Head Mobility Business, Tech Mahindra** said Technology is the great enabler to ensure financial inclusion, Important part in financial inclusion is access to make available. He explained how there is challenge & opportunity in mobile access – coverage to 75 million. Today, we need to develop technology like – micro ATM's with the availability of finger impression. He said, if we solely relate Financial Inclusion as Access and AID related approach the process will be weak. It should be Market Developed approach

Mr Sandeep Dikshit, former MP, Lok Sabha made an intervention by suggesting, organisation like NABARD should focus on servicing where loan is required, rather than fact finding where loan is given at high rate. He referred to AP ordinance regulating operations of microfinance companies, he mentioned that, while ordinance was well intentioned to address the excesses of MFI's who were charging interest rate of 18-24 percent, it had the unintended consequences of driving the borrowers towards the unregulated moneylenders who were charging even higher(40% and above) rates than MFI's.

Issues raised by participants-:

Mr Ayush Prasad from State Bank of India has asked- Financial inclusion is all about creating saving bank account, is there any alternative method which makes external intervention more lucrative for saving?

Mr Amit Arora from GIZ asked-Does Building financial capacity is still grey area as it will create sustainability, Customer protection for the same?

Prof SG Bardinath, IIM Bengaluru asked- Will directly providing capital needs for last mile will cost the beneficiaries?

Mr Varun Malhotra, FI Expert asked- We should also focus on Investment decision through financial inclusion?

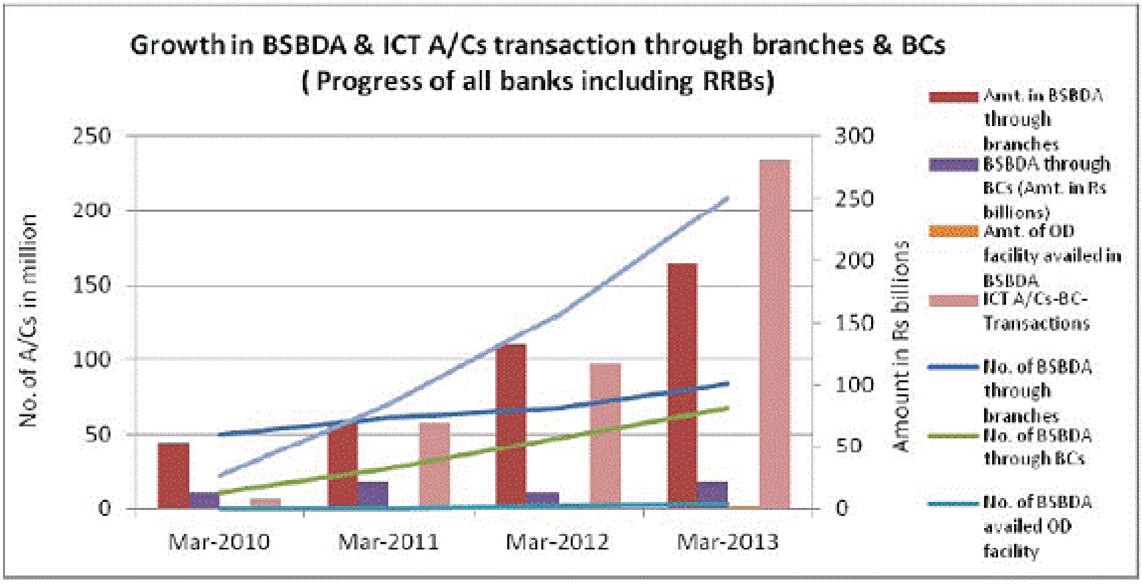
Ms Ragini Chaudhary, UK-Aid asked- When borrower does not have a credit history, how does one need to tackle the cost incurred on including them under financial inclusion.

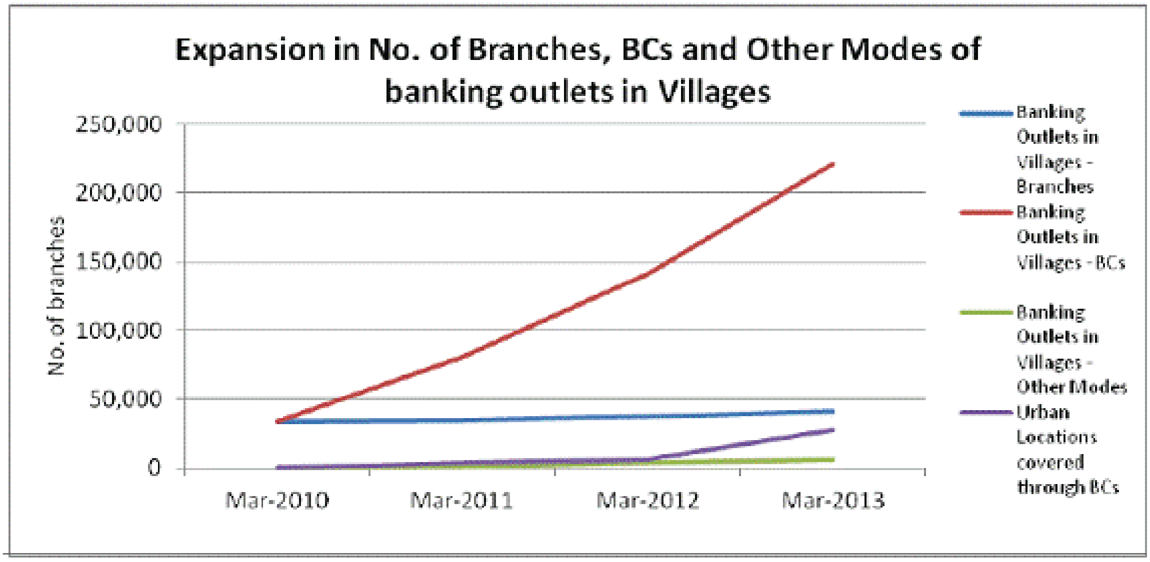
Concluding the panel remark, Mr Gokarn said- First, Cost viable structure for financial inclusion is one major challenge. We have to work on a model which is financially viable. Second, we need a livelihood plan for all citizens, where they earn and save the money to participate in financial inclusion program.

CONCLUSION

Financial inclusion is an equalizer that enables all citizens to contribute to economic growth and to gain from it. India was way ahead of its times when it first ushered in financial inclusion by nationalizing its banks in mid-1969 and then coming up with a slew of policies to operationalize it. The track record is a mix of successes and failures.

The first three-year Financial Inclusion Plan of banks for the period 2010-2013 has ended. Although there has been reasonable progress in the penetration of banking services and opening of basic bank accounts, the number of transactions through ICT-based BC outlets is still low. To continue the process of ensuring access to banking services to the excluded, banks are to draw up a 3-year FIP for the period 2013-16. Banks have now been advised that their FIPs should be disaggregated to the branch level. The disaggregation of the plans are being done to ensure the involvement of all stakeholders in the financial inclusion efforts.





Sources: Reserve Bank of India

SR	Particulars	Year ended, Mar 10	Year ended, Mar 11	Year ended, Mar 12	Year ended, Mar 13
01	Banking Outlets in Villages – Branches	33378	34811	37471	40837
02	Banking Outlets in Villages – BCs	34174	80802	141136	221341
03	Banking Outlets in Villages - Other Modes	142	595	3146	6276
04	Banking Outlets in Villages –TOTAL	67694	116208	181753	268454
05	Urban Locations covered through BCs	447	3771	5891	27143
06	Basic Savings Bank Deposit A/c - branches (No. In millions)	60.19	73.13	81.20	100.80
07	Basic Savings Bank Deposit A/c - branches (Amt. In billions)	44.33	57.89	109.87	164.69
08	Basic Savings Bank Deposit A/c - BCs (No. in millions)	13.27	31.63	57.30	81.27
09	Basic Savings Bank Deposit A/c - BCs (Amt. in billions)	10.69	18.23	10.54	18.22
10	OD facility availed in BSBDA's (No. In millions)	0.18	0.61	2.71	3.95
11	OD facility availed in BSBDA's (Amt. in billions)	0.10	0.26	1.08	1.55
12	KCCs - (No. in millions)	24.31	27.11	30.24	33.79
13	KCCs - (Amt In billions)	1240.07	1600.05	2068.39	2622.98
14	GCCs - (No. in millions)	1.39	1.70	2.11	3.63
15	GCCs - (Amt In billions)	35.11	35.07	41.84	76.34
16	ICT A/Cs-BC- Transaction-No.in millions	26.52	84.16	155.87	250.46
17	ICT A/Cs-BC- Transactions -Amt in billions	6.92	58.00	97.09	233.88

The PMJDY, the Narendra Modi led Government's ambitious programme for financial inclusion, has been rolled out across the country on a massive scale, targeting comprehensive coverage of over 20 crore households by March 2017. One of the key concerns which emerged during the event was that- The financial inclusion programme poses several operational challenges to the implementing banks and service providers that could adversely impact its implementation.

Across the world in developing countries, financial inclusion initiatives are demand driven. The focus is on delivering specific products and services to the target groups. Fund transfer facilities, electronic payment systems and small value consumer credit constitute the usual product offerings under financial inclusion. The hosting banks are on the backend, supporting the service providers that retail relevant fee-based products to the enrolled customers.

In contrast, in India, financial inclusion is being driven from the supply side, as a pivotal tool for the achievement of inclusive socio-economic development; the thrust is on making basic banking services available at affordable cost to every excluded household. The commercial sustainability of the programme has not received enough attention.

The financial inclusion programme is primarily anchored through "No Frills" savings accounts. While the number of basic saving bank accounts opened through corporate business correspondents (BCs) has moved up from 13.27 million in 2010 to 81.27 million in 2013, the aggregate balances have only marginally increased, from ₹10.69 billion to ₹18.22 billion during the period. According to the RBI Annual Report, 2013, the average balance per account has declined from ₹80 to ₹22 over the period. Given the low level of savings mobilised, compounded by defaults on overdrafts issued on the No Frill accounts, the banks could hardly earn any net interest margins on the funds front. For most banks, the cost of carriage of books per FI account works out much higher than the average balance per account.

The financial inclusion projects necessitate substantial investments and recurring costs on the part of technology service providers (TSPs) and BCs engaged by the banks. The costs of handheld POS devices provided to the last mile customer service providers (CSPs) and the commissions are the major components of the outlay of financial inclusion. Added to these are the costs of solution software, tele-connectivity, consumables, field travel, project management and cost of smartcards and now Rupay Cards issued to account-holders.

Further, the PMJDY prescribes that CSPs are assured a minimum monthly remuneration of ₹5,000, which is way higher than the average of about ₹1,000-1,500 they currently earn. With the scope of financial inclusion being extended to a large number of sub-service area villages, the costs would go up further.

The revenues of the service providers are linked to the number of accounts enrolled and transactions carried out. While enrolments provide one-time revenue, transaction revenue is empirically observed to be sub-optimal, with 70-80 per cent of the FI accounts remaining dormant, since customers don't feel compelled to operate the accounts frequently. Due to the low volume of operations, most TSPs are unable to meet their costs. Many TSPs have exited from financial inclusion ventures. Several banks have terminated the contracts with TSPs on grounds of non-achievement of targeted levels of activity. It is, therefore, imperative for banks to revise the terms of the contracts with the TSPs in alignment with the actual costs.

Banks view a financial inclusion as a para-banking operation restricted to savings deposits and have been hesitant in leveraging the BC network, especially on the credit front. This renders the FI channel unprofitable. Interestingly, most No Frills FI account-holders also avail credit facilities at the link branches. The convergence of the PMJDY with priority sector lending should be expedited.

Banks may be mandated to channelize all loans to agriculture, small businesses and micro industries through the FI accounts. These would be maintained by the eligible borrowers and operated by them through POS devices. This would enable banks scale up priority sector credit and boost FI revenues.

WAY FORWARD

It is obvious that there is a huge task ahead that helps overcoming discussed barriers to financial inclusion. Most efforts are concerned with enhancing the supply side without adequate recognition of the long term potential of demand side measures such as effective financial literacy programmes. The government of India constituted a committee on Financial Inclusion which made a wide range of recommendations on the strategies for building and inclusive financial sector and gave up national rural financial inclusion plan. There were a few suggestions that can be helpful to overcome the barriers on Financial Inclusions such as;

Postal Network: To promote financial inclusion government of India can make use of already existing massive P&T (Postage & Telegraph) network, which is also the most widely distributed network in the world.

M-Banking: Mobile banking can also be an answer for the problem, as more than 50% of the Indian population are now connected to the mobile network. Mobile banking can reduce the transaction cost as well.

e-Governance Role: Achievement and evolution of the FI edge are largely dependent on the effective collaboration among the private and public sector. Governance policy and framework is absolutely required platform for these players to interact in a progressive manner. e-Governance can be very useful because the progress will be cost effective and efficient manner, by reducing corruption and delays.

Technology Platforms: To enable a successful financial inclusion, innovation of products for the specific needs of the poor is not only necessary but also an essential condition. Today, banks can provide a bouquet of financial services through the various networks of agents and branches by leveraging and fine tuning technology platforms. Technology holds the key to providing models for efficient delivery of small value transactions in large volumes while reaping economies of scale. The implementation of such effective, scalable and platform-independent technology will help drive down the cost of providing banking services to the poor.

The Immediate Payments Service (IMPS), an instantaneous 24x7 electronic funds transfer system has been developed by the National Payment Corporation of India (NPCI). IMPS facilitate customers to use mobile instruments as a channel for accessing their bank accounts and put high interbank fund transfers in a secured manner with immediate confirmation features.

Financial Literacy: Building financial capability through financial literacy is a key component of financial inclusion. It means providing financial education so that individuals can identify and use appropriate financial products and services in order to build and preserve their assets over time. It should make people better informed, better educated and more confident, able to take greater responsibility for their financial affairs and able to play a more active role in the market for financial services.

FLCs have been set up as at the end of March 2013. A total of 2.2 million people have been educated through indoor education to walk-in persons and through outdoor activities such as awareness camps/choupals, goshtis , seminars and lectures in a one-year period, from April 2012 to March 2013. It has advised all FLCs and rural branches of scheduled commercial banks to conduct a minimum of one outdoor financial literacy camp every month.

NOTES:

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