

Bank Strategies for Financial Inclusion

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December 16, 2008**

Indian Economy

- ❑ During the last 58 years, India's GDP at current prices has grown 450 times from Rs.9,547 crore in 1950-51 to Rs.43,03,654 crore in 2007-08 while population has grown 3.2 times from 359 million to 1138 million.
- ❑ Per capita income at constant prices has increased 6.6 times from Rs.3,687 in 1950-51 to Rs.24,321 in 2007-08.
- ❑ From so called 'hindu growth rate' of around 3% p.a. between 1950-80, GDP growth rate improved to 5.8% during 1990-2000 and at 6.0% between 2001 and 2005. However, last three financial years have witnessed growth of 9.4%, 9.6% and 9.0%, highest ever recorded in Indian history in a row.
- ❑ The aim of Government of India is to sustain GDP growth of 8% p.a. and with special efforts, upscale it to 10% p.a. so as to double the per capita income by 2016-17.
- ❑ The objective of Eleventh Plan 2007-12 is also : "Towards Faster and more Inclusive Growth" with an aim of bringing about speedier reduction in poverty and improving living standards of people.

Why Financial Inclusion

- ❑ However, it is felt that the benefit of economic buoyancy has not reached the vast segment of population, particularly 300 million people living below the poverty line.
- ❑ On one side, financial system is globalising and on the other side, large segment of population do not have access to even basic banking services.
- ❑ Unless these people are brought to the mainstream, the real benefit of economic buoyancy cannot be achieved.
- ❑ In order to bring this population to the mainstream, it is essential that they are provided access to basic banking services both for parking their savings and obtaining credit for consumption or starting self employment ventures at the micro levels.
- ❑ Holding of bank account itself provides a sense of identity, status and empowerment with an access to national payments system.
- ❑ Financial inclusion is the sine quo non for inclusive growth.



Why Can't FI happen on its own?

- ❑ **Financial Exclusion:** A vast segment of population needs but are unable to access due to poverty, regional disparities, climatic conditions, etc. and have to depend upon informal sources at high rates resulting in vicious cycle.
- ❑ **High Cost:** Poor living in urban areas find it difficult to access on account of high cost such as minimum balance requirements, high rates/ transaction costs, etc.
- ❑ **Non-price Barriers:** There may be difficulty in providing persons' identify, income proof, distance from bank branches, poor infrastructure etc.
- ❑ **Behavioral Aspects:** Many people find it uncomfortable to approach formal financial institutions. There may be difficulties in terms of language, documentation requirements, etc.

✓ As a result, the onus falls on policy makers to take suitable action to achieve Financial Inclusion.



Financial Inclusion: The Concept

- **Financial Inclusion defined:** *The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and the low income groups at an affordable cost (Rangarajan Committee January 2008).*
- For **individuals**, it would help in accessing basic banking services at low cost and with higher safety; for **regulators**, it would bring about more transparency and efficiency; and for **economy**, it would help in availability of larger resources by encouraging savings and generating means of livelihood for the poor people by enabling them access to credit from formal sources.



- At all India level, estimated number of rural households is 148 million (total 203 million Households) of which 60.4% (89.4 million) are farmer households.
- Of these farmer households, 48.6% (43.4 million) are reported to be indebted to either formal or informal or both sources of credit.
- 51.4% of farmer households (45.9 million) are not indebted at all and 88% of these excluded households are either marginal (less than 1 ha) or small farmers (1-2 ha).
- Four states, viz. A.P. (82%), Tamil Nadu (74.5%), Punjab (65.4%) and Kerala (64.4%) have indebtedness in excess of 60%. Meghalaya (4.1%), Arunachal Pradesh (5.9%), Uttaranchal (7.2%), Assam (18.1%) and Jharkhand (20.9%) have very low level of indebtedness. In Rajasthan 52.4% of farmer households are indebted.
- Of the 43.4 million indebted farmer households, 56% (24.4 million) are indebted to formal sources (banks/ cooperative societies and Government). Of the total farmer households, the coverage by formal sources is only 27%. In other words, 73% of total farmer households have no access to formal sources of finance.
- Banks contribute 36% to outstanding loan amount borrowed by indebted farmers. Money lenders' share is 26%.



Measure of Financial Exclusion

"Status of Indebtedness of Farmer Households", NSSO, 2005

- In Rajasthan, there are estimated 70.17 lakh rural households, of which 53.08 lakh are farmer households. Of these, about 27.83 lakh households are indebted either through formal or informal sources of credit. In terms of outstanding amount borrowed by farmer households in the State, the share of banks is merely 27% while share of money lenders is as high as 37%.
- The position in terms of deposit accounts is also not very satisfactory. At an all India level, about 41% of adult population does not have any bank account (61% in rural areas). The position in respect of Rajasthan is worse with 55% adult population not having any bank deposit account.



Measure of Financial Exclusion

- Exclusion more in credit markets: Number of loan accounts just 14% of entire population.
- Coverage is 9.5% in rural areas and 14% in urban areas.
- Regional disparity is large – 25% in Southern region, 7% in NER, 8% in Eastern and 9% in Central Region.
- In terms of households, 75% farmer households in northern region, 96% in NER, 81% in Eastern Region, 78% in central region, 56% in Western Region and 57% in Southern Region have no access to formal sources of finance.
- Marginal farmers who account for 66% of all farm holdings remain by and large excluded from formal financial system, with only 20% having access to formal sources of credit.
- Among non cultivator households, 80% have no access to credit from any source.

✓ No measure of Financial Inclusion is perfect. Ideal definition can be to look at people who want access to financial services but are denied the same.

Financial Inclusion: Cross Country Experience

- India is not the only country where financial exclusion takes place.
- As per an estimate, about 10-15% households in USA, 8-10% in UK and 7-10% in France do not have any bank account.
- 22% of low income households in USA do not have any savings or current account.
- Problem is more acute in developing countries where extent of exclusion is 25-65%.



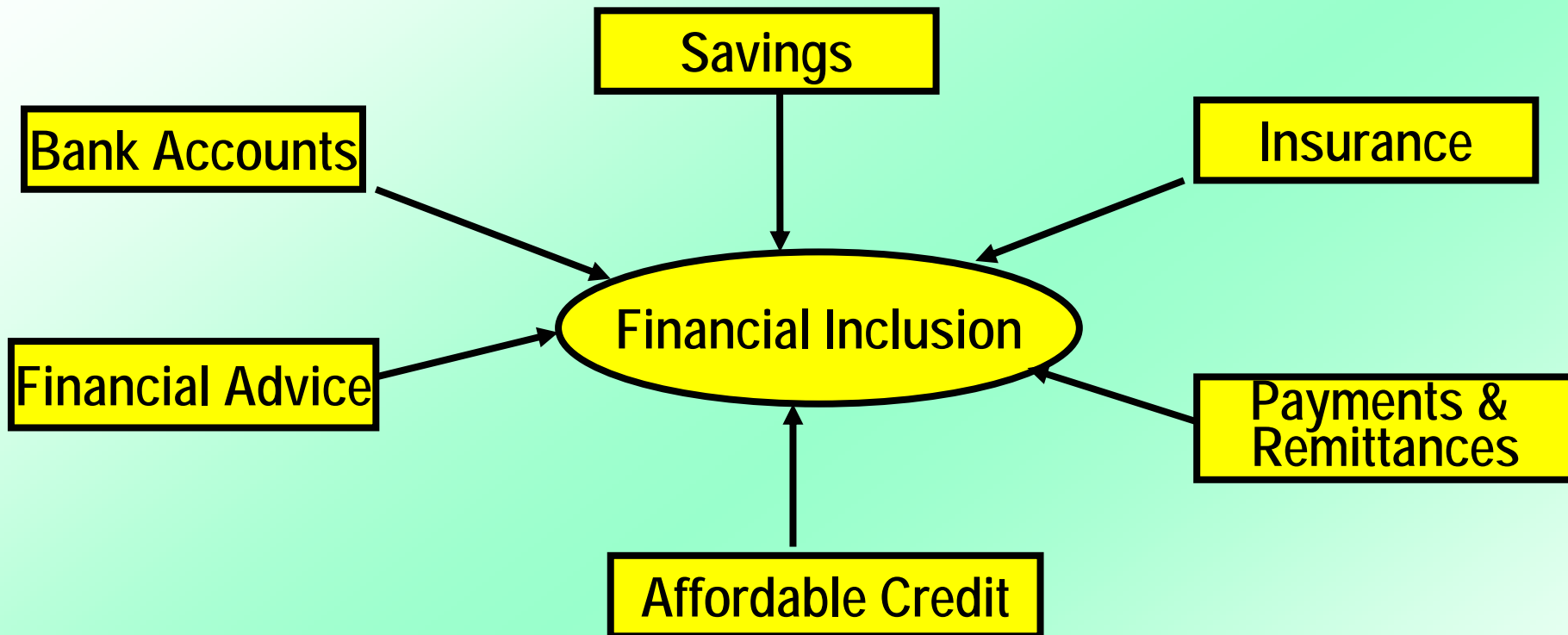
Policy Response : Cross Country Experience

- **Sweden:** Banks cannot refuse to open a savings or deposit account as per law (Section 2 Banking Business Act 1987).
- **France:** Principle of “right to bank account” followed (Article 58 of Banking Act, 1984).
- **US:** FDIC Advisory Committee on Economic Inclusion set up in 2006 to expand banking services to underserved population. Banks prohibited to discriminate against low and moderate income households (Community Reinvestment Act 1997).
- **Germany:** Everyman Account – joint declaration by banks to provide this current account facility without overdraft facility.
- **South Africa:** Mzansi Account – low cost card based savings account with availability at post offices, merchant points of sale, etc.
- **Canada:** Access to Basic Banking Services Regulations 2003. Banks required to open bank accounts/ encash Govt cheques at no charge.

✓ **Financial inclusion is a part of ensuring financial stability even in developed countries and legislative measures to achieve it is a common feature.**



Components of Financial Inclusion



- ✓ In a narrow sense, Financial Inclusion is achieved by offering anyone of these services.
- ✓ However, Comprehensive Financial Inclusion can be achieved by providing all these services in a holistic manner

Financial Inclusion: Indian Experience

- India is amongst the first few countries which pioneered towards financial inclusion.
 - State Bank of India Act 1955.
 - Bank Nationalization (1969/ 1980).
 - Lead Bank Scheme (1969).
 - Setting up Regional Rural Banks (1976).
 - Setting up NABARD (1982).
 - 20 Point programme for banks (1975).
 - Branch expansion policy favouring rural/ semi urban branches.
 - Compulsion for opening branches in North East Region.
 - Targets for priority sector advances.
 - Advances to women, SHGs, education loans, no frills accounts.
- Formal reference to Financial inclusion was made by RBI Governor for the first time in monetary and credit policy for 2005-06.



Recent measures to promote Financial Inclusion in India

- Encouraging banks to open no frills accounts (since November 2005) (total 1.5 crore accounts already opened till Sep 2008).
- Relaxing Know-Your-Customer (KYC) procedures for deposits upto Rs.50,000 and credit upto Rs.1 lakh;
- Introduction of General Purpose Credit card with limits upto Rs.25,000;
- Simple mechanism for One Time Settlement upto Rs.25000;
- Using NGOs/ MFIs as business facilitators/ business correspondents;
- Adopting one district each by State Level Bankers' Committees for 100% financial inclusion;
- Credit counseling/financial education (RBI website launched in 13 Indian languages);
- Extensive usage of IT solutions;
- Enactment of National Rural Employment Guarantee Act: coverage extended to 614 districts in 2008-09 (expenditure Rs.30,000 crore); 100 days employment to 5 crore households; 4.6 crore bank/ institutional accounts have been opened. This is the largest financial inclusion effort since Independence.

Financial Inclusion

SBBJ's Initiatives

Achievements in a Snapshot

- SBBJ is front-runner in implementing financial inclusion in Rajasthan.
- SBBJ is the first Bank to complete 100% financial inclusion in Rajsamand District of the State in January 2007.
- Intensified efforts in Dausa, Dholpur, Dungarpur, Jhalawar and Sri Ganganagar districts.
- The Bank has achieved 100% financial inclusion in 2826 villages of the State, highest amongst all banks in the State.
- The Bank holds first position in financing entrepreneurs under PMRY for the last 5 financial years.
- A total of 3.75 lakh 'no frills accounts' viz. Saral Bachat Khata opened upto November 2008.
- Number of Kisan Credit Cards increased to 5.25 lakh.
- The Bank believes in using the latest technology to increase the outreach to the rural masses particularly those living in far flung areas of the State.
- Various channels being considered are biometric smart cards, Point of Sales (PoS) machines, etc.

Village Adoption Scheme

- **Objective:** To have integrated approach for the entire village to meet the credit requirements of all the inhabitants who need credit besides ensuring that at least one member of each Household has a deposit account.
- **Phase-I**
 - ❖ 107 branches identified and each branch advised to cover 5 villages in its operational area.
 - ❖ Household surveys conducted with the help of Sarpanch and other village level functionaries for 533 villages, to arrive at (a) list of eligible villagers, (b) List of people who have already availed of loans from any formal source, and (c) residual villagers identified who are interested in availing credit.
 - ❖ After compiling above data, the task of financing remaining eligible villagers taken up. Branches individually contacted the villagers by holding credit camps and providing assistance based on their skills and requirements.
 - ❖ A total of 29000 families covered in Phase-I with an assistance of Rs.60 crore.
- **Phase-II**
 - ❖ With successful completion of Phase-I, the Bank adopted another 600 villages in 32 districts of Rajasthan. Another 300 branches were identified and the entire process as at Phase-I was completed during 2007.

100% Financial Inclusion in Districts

- In August 2006, as lead bank in Rajsamand District, SBBJ was entrusted the task of achieving 100% financial inclusion in the district.
- 59 branches of the Bank took up the task of surveying 10004 villages and 21 semi-urban centres. About 2 lakh families were identified in the survey.
- Objective was to have minimum one account per household as per the voter list.
- The Bank achieved this gigantic task in January 2007, two months ahead of the scheduled date of March 2007.
- A total of 90,000 new deposit accounts were opened. Credit was also provided to identified villagers who were eligible.
- Rajsamand emerged as one of the first districts where 100% financial inclusion was completed.
- Subsequently, in February 2008, RBI advised the banks in the state to complete financial inclusion in another 5 districts viz. Sriganganagar (OBC), Daussa (Uco), Dholpur (PNB), Jhalawar (CBI) and Dungarpur (BoB). Even this task has been completed.
- Now efforts are underway for financial inclusion of remaining districts.

SBBJ - No Frills Account

- In line with the policy pronouncement of RBI, the Bank introduced Saral Bachat Khata scheme in December 2005.
- Main features:
 - Zero Balance i.e. no minimum balance stipulation.
 - Minimum Initial Deposit Rs.5/ Maximum deposit Rs.50,000.
 - KYC Compliance: Limited.
 - Minimum withdrawal limit Rs.50.
 - Free withdrawals: 5 per month, thereafter Rs.5/- per withdrawal charges.
 - Cheque book facility: Yes – 20 free cheque leaf given.
 - ATM Facility: No.
- As at end November 2008, the Bank has opened a total of 3.75 lakh no frills account.



Need for IT enabled Financial Inclusion

- Access to banking facilities in unconnected areas.
- Economical personal visit to the outlets.
- Availability of different banking products and services at the customers' location.
- Micro finance disbursements at their doorsteps. SHGs don't have to come to branches.
- Payment of pension at residence of pensioner.
- Payment of salary to employees at their premises.
- Can be used for collection of fee for schools/ colleges.
- Economics of operation: low transaction cost vis-à-vis branch based transaction.
- Building long term relationships with customers – trust and loyalty towards Bank.

SBBJ initiatives in IT enabled Financial Inclusion

- The Bank is in the process of identifying a technology service partner which will install electronically operated system infrastructure to provide Points of Sales (PoS) across the State.
- PoS will use smart card technology and will provide banking service in a secured manner.
- The Bank will also appoint Banking Correspondent in accordance with RBI/ SBI guidelines.
- State Bank Group approach shall be followed.
- Initially, the smart card will cover only no frills accounts. In due course, other products will be added viz. term deposits, loans, cross selling, distribution of government subsidies, utility bill payments, pension payments, payments for procurement by industries, etc.
- The Bank will have in place channel managers who can take charge of 40-50 PoS – will also conduct social audit.
- The product will be launched in pilot basis in 25 branches.

Features of PoS Device

- Capable of operating in humid/ dirty environment.
- Interoperability of different products.
- Biometric reader and authentication system.
- Voice enabled in hindi/ vernacular language – also in display and print out.
- Can be empowered with car/ tractor battery.
- Should be able to enroll customers.
- Should have interface with external digital camera.
- Upto 10000 transactions can be stored.

SBBJ Tiny Savings Bank Account

- New product launched recently.
- The Scheme includes a deposit account alongwith biometric smart card.
- Minimum/ maximum balance: Nil/ Rs.50000.
- Availability: At Customer Service Points (CSPs) of Bank appointed Business Correspondents/ Business Facilitators.
- Mode of transaction: Cash withdrawal and funds transfer permitted at CSP with biometric authentication of cardholder. Deposits permitted without authentication.
- Daily limit of transaction: Rs.10,000 per day per customer.
- KYC norms: as applicable under "no frills accounts".
- Restrictions: no cheque book, transactions only through smart card, no ATM card, no internet banking, mini statement on request, no pass book as smart card stores transactions.



Bhamashah Financial Empowerment Scheme

- Innovative and mega project of Government of Rajasthan envisaging opening of 50 lakh accounts of rural families (BPL, Small and Marginal Farmers/ SC/ ST, etc.).
- Electronically operated systems envisaging setting up 15000 Points of Sales all across the State. Target population within 3 Km distance.
- GoR to deposit Rs.1500 in the bank account to be opened in the name of woman head of the family.
- Account to be operated through biometric smart card.
- Health insurance of BPL families to be covered.
- Smart card technology to be also used for disbursements of various government payments for welfare schemes of Centre and State viz. NREGP, Social security pension, etc.
- Database to be also used for e-governance.
- Many banks involved – SBBJ entrusted with responsibility in 3 districts.
- Change in Government – operation stayed for the time being.

Debt Swap Scheme

- The Bank has introduced a Debt Swap Scheme with an objective of earmarking 3% of agricultural credit for giving loans for Debt Swapping of farmers from 2008-09 onwards so that farmers can be brought out of the clutches of money lenders.
- As per the scheme, farmers can get a loan of up to Rs.50,000 on the basis of undertaking/ declaration giving details of sums borrowed from money lenders.
- To begin with, efforts are being made to ensure that all branches of the Bank adopt at least one village in their area of operations to make the village free from the trap of money lenders.
- The scheme has been widely publicized by displaying banners in branches and by publishing advertisements in local newspapers.
- As at end-November 2008, against the target of 1300 farmers, the Bank has provided assistance to nearly 10,000 farmers with total assistance of Rs.22 crore under the Debt Swap Scheme.

Agriculture Debt Waiver and Debt Relief Scheme 2008

- In terms of announcement made in Union Budget 2008-09, the Bank has successfully implemented Agriculture Debt Waiver and Debt Relief Scheme, 2008, benefiting more than 2.4 lakh farmers in Rajasthan.
- Accordingly, the loans given to small and marginal farmers remaining overdue as at end-December 2007 have been waived.
- For other farmers, the Bank has implemented One-time Settlement Scheme whereby 25% of loan amount has been waived upon commitment to pay the balance 75% within the time period prescribed.
- The beneficiaries of the Scheme are as under:-

	No. of Farmers	Amount (Rs. crore)
Debt Waiver	131082	402.31
Debt Relief	113800	277.03
TOTAL	244882	679.34

Credit Linking Self Help Groups in Rajasthan

- Credit Linking SHGs in Rajasthan is one of the major thrust areas of the Bank.
- As at end-September 2008, the Bank had credit linked a total of 23,067 SHGs in the State with a total assistance of Rs.104 crore.
- The Bank holds number one position in credit linking Self Help Groups in the State during 2004-05 to 2007-08.

Year	No. of SHGs Credit Linked	Amount (Rs.in Lakh)
1999-2000	73	16.59
2000-2001	250	58.77
2001-2002	492	114.34
2002-2003	538	216.90
2003-2004	802	557.76
2004-2005	4574	1660.53
2005-2006	6884	2325.08
2006-2007	5123	2556.37
2007-2008	3647	2383.99
Cumulative (upto Sep'08)	23067	10400.05

Other Initiatives

- In an innovative initiative, every branch of the Bank has adopted one girl child each from a poor family with an objective of providing financial assistance for pursuing studies in Government/ municipal schools.
- The Bank undertakes various community services activities such as tree plantation, free medical camps, women health education camps, establishing water huts, adult education programmes, at various locations across the State.
- The Bank has set up Rural Development and Self Employment Training Institutes (RUDSETI) in Pali, Bikaner and Sirohi where job-oriented skills are imparted to rural unemployed youth. 5 more RUDSETIs are planned before the end of current financial year (Rajsamand, Jaisalmer, Hanumangarh, Jalore and Barmer).

Challenges in Financial Inclusion

- Expand outreach in remotest corners.
- Size of the target group quite large and dispersed.
- Lack of proper means of communication.
- Absence of a suitable delivery model which is time tested.
- Environmental and infrastructural issues.
- Availability of efficient Business Facilitators/ Business Correspondents.
- Selection of appropriate technology both in terms of hardware and software.
- Improper educational background and awareness of technology usage amongst target population.

Mission Financial Inclusion

- Looking at the enormity of task, financial inclusion needs to be taken up in a mission mode as a National Rural Financial Inclusion Plan (NRFIP). The target should be to provide comprehensive financial services to at least 50% (55.8 mln) excluded rural cultivators and non cultivator households by 2012 through rural/ semi urban branches of banks and RRBs. Remaining households to be covered by 2015.
- Every rural/ semi urban branch must target 250 new households per annum aggregating 11.2 mln households with emphasis on marginal farmers, tenant cultivators and poor non cultivator households.

Rangarajan Committee on Financial Inclusion/ Union Budget 2008-09

