

Social Responsibilities of the Indian Banking Sector – How to promote Access to Finance for the Unbanked Masses and Underserved Sectors*

Distinguished co-panelists, delegates, ladies and gentlemen:

I feel privileged to be here at this Conference today to participate in the panel discussion on Social Responsibilities of the Indian Banking Sector – How to promote access to finance for the unbanked masses and underserved sectors.

2. In the Annual Policy of the Reserve Bank for 2004-05, the Governor observed:

“There has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in the unorganized sector. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis.”

The social responsibility of banks can hardly be in doubt and is inherent in the services they provide as safe repositories of public deposits, suppliers of credit to individuals and institutions to support enterprise and fuel economic development, providers of payment and settlement systems and a variety of other related services. In India, social responsibility of the banking sector was the underlying philosophy for the nationalization of major banks.

* Address by V. S. Das, Executive Director, Reserve Bank of India at the Indian Banking Conference at Centre for Analytical Finance, Indian School of Business, Hyderabad on June 13, 2008.

3. 'Financial Inclusion' has, since the last 3 years or so, occupied the centre stage and been the theme of many conferences held in India and abroad. In India high-level committees have reviewed the state of Financial Inclusion in the country and given their learned views. It needs to be emphasized, however, that 'Financial Inclusion' as a goal was envisioned 40 years ago, in a sense even earlier when Pandit Jawaharlal Nehru made his famous 'tryst with destiny' speech in Parliament and set the tone for the emergence of an egalitarian society. Major banks were nationalized in 1969 with the objective of taking banking to the masses. While it is true that the goal is yet to be achieved one cannot deny the progress made during the period, particularly the policy and institutional framework which have laid the foundation for attainment of Financial Inclusion. We have traversed a long journey since 1969, which has seen the evolution of several policies, models and schemes, successes and failures in our endeavour to attain Financial Inclusion as also inclusive growth. The Lead Bank Scheme was formulated as a model for facilitation of economic development through the banking system, there was phenomenal growth in bank branches and their outreach, greater emphasis on lending to the priority sectors, schemes for alleviating poverty, impressive strides in microfinance, etc. The period also saw the emergence of financial institutions such as NABARD, SIDBI, UTI, and NHB, which have played a useful role in this context. Today we can proudly say that the country has a sound well-regulated banking system, which is designed to serve all sections of the population. Our banks, particularly those in the public sector, have contributed significantly in the nation's economic development, including development in the rural areas. Much, however, still remains to be done.

4. Renewed interest in Financial Inclusion has emanated from the concern that inspite of all the progress made by banks the position of Financial Inclusion in the country is far from satisfactory. There is a large chunk of the population that remains financially excluded. Financial Exclusion can be thought of in two different ways. One is exclusion from the payments system in the absence of a bank account, The second type of exclusion is from formal credit markets, which drives the excluded towards informal and exploitative markets. The data available on the dimensions of financial

exclusion is, unfortunately, not current. It is estimated that 41 percent of the adult population do not have bank accounts. In rural areas, the coverage is 39 percent as against 60 percent in urban areas. The extent of exclusion from credit markets is greater. *NSSO data reveal that 45.9 million farmer households in the country (51.4 percent, out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27 percent of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm households not accessing credit from formal sources, as a proportion to total farm households is especially high at 95.91 percent, 81.26 percent and 77.59 percent in the North Eastern, Eastern and Central Regions respectively. Thus, as rightly observed in the Rangarajan Committee's report on Financial Inclusion, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.

(* Source: Report of the Committee on Financial Inclusion, January 2008. Chairman: Dr.C. Rangarajan))

5. The Annual Policy Statement of the Reserve Bank for 2005-06 had stated that:

- RBI would implement policies to encourage banks, which provide extensive services while disincentivising those, which are not responsive to the banking needs of the community, including the underprivileged.
- The nature, scope and cost of services would be monitored to assess whether there was any denial, implicit or explicit, of basic banking services to the common person.
- Banks would be urged to review their existing practices to align them with the objective of financial inclusion.

In keeping with these objectives, the Reserve Bank has formulated its broad approach to Financial Inclusion

6. The Reserve Bank's broad approach to Financial Inclusion is:

- Aim at 'connecting' people with the banking system and not just credit dispensation.
- Aim at giving people access to the payments system.
- Use multiple channels such as civil service organizations, NGOs, post offices, farmers' clubs, panchayats, MFIs, etc. to expand the outreach of banks.
- Adopt a decentralized approach, which is state and region specific and has close involvement and cooperation between the respective State Governments and banks.
- Make use of ICT using biometric smart cards and mobile hand held electronic devices for receipts and disbursement of cash by agents of banks, such as business facilitators/correspondents.
- Portray Financial Inclusion as a viable business model and opportunity.
- Aim at continuous evaluation, sharing of experiences, feedback and improvement.

7. In consonance with this broad approach, the Reserve Bank has undertaken a number of measures for attracting the financially excluded population into the structured financial system, such as asking banks to open no frills accounts with relaxed KYC norms, offering of modest overdraft facility/General Credit Card, use of intermediaries to act as agents (BC/BF) for enhancing banks' outreach, drawing up of strategic plans for development and financial inclusion in the economically less developed regions of the country, use of ICT for enhancing the outreach of banks, adoption of districts for 100 percent Financial Inclusion, promotion of financial literacy and credit counseling. Guidelines for banks with respect to Priority Sector Lending have been rationalized. With the enactment of the Micro, Small & Medium Enterprises Development Act, 2007, there is now greater attention and focus on coverage of the hitherto neglected micro and small enterprises. Public Policy is making concerted effort to revitalize the Regional Rural Banks, rural cooperative credit system and primary urban cooperative banks, which have an important role to play in Financial Inclusion. A High Level Committee has

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been constituted by the Reserve Bank to review and revamp the Lead Bank Scheme, which has been a unique and useful model. A Bill to regulate Microfinance Organizations is also awaiting enactment. The Financial Inclusion Fund and Financial Inclusion & Technology Fund, with a corpus of Rs. 500 crore each have been set up by the Government for the promotion of Financial Inclusion. Important Committees such as those chaired by Dr C. Rangarajan and Prof. Raghuram Rajan have examined the subject in depth and made recommendations

8. All these initiatives have showed encouraging results within a short period. Himachal Pradesh, Haryana, Uttarakhand, Karnataka, Kerala and Puducherry have formally declared having achieved 100 percent Financial Inclusion, with atleast one member in every household having banking access through an account. There has been progress in certain other states as well and some of them are on the brink of full inclusion, which they hope to achieve it in a few months. In the very first year (2006-07) there was a phenomenal growth in the number of no frill accounts with banks from less than half a million as on March 31st 2006 to 7 million such accounts as on 31st March 2007. Nine months later, the number of no frill accounts had risen to almost 13 million as on 31st December 2007

Category	March 31, 2006	March 31, 2007	December 31, 2007
Public Sector Banks	332,878	5,865,419	11,202,429
Private Sector Banks	156,388	856,495	1,558,937
Foreign Banks	231	2,753	28,286
Total	493,393	6,724,667	12,789,652

As regards use of ICT, Government of Andhra Pradesh has played a pioneering role in routing government payments through banks that make use of business correspondents and deploy mobile banking technology to provide banking facility at the doorsteps of the villages. The pilot has been successful and is up-scaling rapidly. Reserve Bank had constituted a committee to address some of the issues related to electronic benefit transfer and the findings of the committee have been placed in the public domain. Technologies like remote area ATMs, biometric smart cards, and hand held connectivity devices are being tried by different institutions. Pilots have been carried out successfully in certain other states, such as Karnataka, Maharashtra, Uttarakhand and Mizoram. These projects are expected to be upscaled in the near future. In order to combat financial exclusion Project Financial Literacy has been launched by the RBI in right earnest and a collaborative approach has been adopted. The procedures in respect of agricultural loans for small and marginal farmers have been simplified. Banks have been advised to set up Credit Counseling Centres. The process of refining the existing systems, innovating delivery models is an on-going one and there is concerted action taking place with initiatives from Government, RBI, banking industry and other intermediaries. Therefore, in the foreseeable future the prospects of greater Financial Inclusion look promising.

9. It is important, at this juncture, to sound a note of caution. In our quest for providing access to finance to the unbanked and underserved sectors, we should constantly remind ourselves that we are trying to reach out to a section of our society that is weak and vulnerable. Hence it is necessary that the systems that we put in place are sound in all respects and are appropriately regulated and supervised. It is important that practices adopted by banks and their charges are perceived as fair and reasonable.

10. As competition opens up in the financial sector, banks would benefit if they recognize the opportunities that lie untapped and cease to view this philanthropically. The excluded population represents potential business. As aptly put by Prof C K Prahalad there is 'fortune' at the bottom of the pyramid, which remains to be unearthed.

