

OECD-Bank Indonesia
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**Strengthening Financial Inclusion:
Reaching a wide and targeted audience**

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Indian Context

- The Growth Story
- Extent of Exclusion
- Strategies and Action
- Ideas and Way Ahead

A Definition

“Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”.

Report of the Committee on Financial Inclusion, 2008

Importance and Context

- High Growth and Financial Deepening
- Inclusive Growth- Empowerment through financial inclusion-Ensuring Equity
- Extent of Exclusion
- Financial Literacy- Income Correlation
- Financial Innovation, Complexity and Financial literacy

Striking Evidence of Exclusion

- **Absolute exclusion of farmers 51.4%**
- **Exclusion from formal sector credit 86%**
- **Rank in Index of financial inclusion 50**
- **Total workforce- 321 million**
- **Low income workers- 77 million**
- **No financial saving 64%**
- **Saving in formal financial instruments 26%**

Savings Accounts and Credit Access

Region	Farmer HHs not having access to formal or non-formal sources of credit (2003) (%)	No. of Savings Accounts to Adult Population (2005) (%)	No. of Loan Accounts to Adult Population (2005) (%)
North	48.60	80.00	12.00
North-East	80.10	37.00	07.00
East	60.00	34.00	08.00
Central	58.34	52.00	09.00
West	46.23	60.00	13.00
South	27.30	66.00	25.00
All India	51.40	59.00	14.00

A Question of Trust

Most trusted	Least trusted
State Bank of India	Stock brokers
Life Insurance Corporation	Chit funds
India Post	Foreign Banks*
Other Nationalised banks	Money lenders
	Mutual funds

Strategy for an Inclusive Model

- improve existing formal credit delivery mechanisms
- improve credit absorption capacity, especially amongst marginal and sub-marginal farmers and poor non-cultivated households
- evolving new models for effective outreach
- leveraging on technology based solutions

Enhanced Efforts since 2004

- Multi-Institutional and multi- instrumental approach
- A basic banking no-frills accounts
- Simplified KYC procedure for small accounts
- General purpose credit card
- Business facilitator/Business Correspondence models

Enhanced Efforts....

- ‘Project Financial Literacy’-RBI
- Pilots for credit counselling and financial education
- A Multi lingual (13) website
- Financial Inclusion Funds
- Micro Level Initiatives by Others

Efforts in the Pipeline

- National Mission for Financial Inclusion
- Product Innovations- Savings, credit (savings-linked) and insurance (micro insurance) products
- Multi-purpose training/service centres
- Strengthening the micro-finance model
- Joint liability groups model for financing the poor

Efforts in the pipeline...

- Strengthening RRBs and Co-operative structures
- SHG-Bank linkage model
- Greater role for NABARD
- Addressing the demand side causes for financial exclusion

Way Ahead-A paradigm shift in Thinking

- From expanding credit to expanding access to financial services
- From credit to creditworthiness
- Nation-wide electronic financial inclusion system
- Enhance delivery infrastructure- shift from the large bank led model to small finance bank and business correspondence model
- Co-operative banks and governance reforms

Way Ahead...

- Leveraging technology for efficiency/access
- Lessons for Financial inclusion from the sub prime crisis- poor need grant, not loans?
- Approach to the bottom of the pyramid- commercial perspective or humanitarian concerns?
- A collective endeavour

Thank You