**Financial Inclusion**

As defined by RBI

- Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players.
Twin Aspects of Financial Inclusion

- Financial Literacy & Financial Inclusion

**Demand Side**
- Financial Literacy Credit Counselling
- Credit Absorption Capacity
- Knowledge of products
- Need for total products & services

**Supply Side**
- Financial Markets, Banks & Services
- Appropriate Design of products & services

**Objective**

- To provide complete Financial services encompassing all below:
  - A basic no frills banking account for making / receiving payment.
  - Saving product (including investment / pension) suited to the pattern of cash flows of poor households.
  - Simple credit products, Overdrafts linked with No-frill a/c's, KCC, GCC, ACC etc.
  - Remittance - money transfer facilities.
  - Micro Insurance (life and non-life).
  - Micro Pension

**CREDIT COUNSELLING AND FINANCIAL EDUCATION/LITERACY INTEGRAL TO PROCESS OF BUILDING BASIC FINANCIAL SKILLS AND IS A CONTINUOUS PROCESS**
Strategy

- Refine existing credit delivery mechanism.
- Strengthen credit absorption capacities.
- New model for effective outreach.
- Leverage ICT & Technology based solutions.

Financial Inclusion- Policy Initiatives

- **Regulatory dispensation on KYC norms:**
  Know Your Customer (KYC) requirements for opening bank accounts relaxed with deposit transaction caps for low volume transactions.

- **Simplified branch authorisation:**
  Domestic Scheduled commercial banks permitted to freely open branches in centres with population less than 50,000. subject to reporting
  
  To step up opening of branches in rural areas for increased banking penetration and consequent financial inclusion, banks mandated by RBI’s Monetary Policy Statement – April 2011 to allocate 25 % of the total number of branches in unbanked rural centre’s.

- **Business Correspondent/ Business Facilitator Model**
  January 2006 - Reserve Bank introduced BC/BF model for carrying out banking activities on behalf of banks. In 2010 ‘For Profit Companies’ allowed as BCs of banks.
  
  BC is only a pass through agent of the bank.
**RBI’s direction to Banks**

- All **villages** with population **over 2000** to have access to financial services through a **banking outlet** by **March 2012** - **Harness Low Cost technology** and innovate Low Cost business model.
- Board Approved Financial Inclusion plan (FIPs) to be rolled out by banks over the next three years.
- Include criteria regarding Financial Literacy and Inclusion in performance evaluation of the staff.

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**Financial Literacy – RBI’S approach**

- The Organization for Economic Cooperation and Development defined Financial Literacy as ability to grow, monitor and effectively use financial resources to enhance wellbeing and economic security of one self, ones family and ones business.

- The economic crisis has brought into sharp focus that financial literacy is an important element for promoting financial inclusion and ultimately financial stability.

- Lack of basic financial skills contributes to personal hardship and broader economic risk
Role of Financial Literacy

- **Deepening of financial sector** is essential for developed and matured economy.
- Financial deepening is only possible when individuals and households are financially literate to make informed choices about how they save, borrow and invest.
- Access to entire gamut of banking services to nearly half of our left behind population would help raise household / overall domestic saving (36% of GDP in 2007-08 since increased to 39%) further and fulfill one of the necessary conditions to the aspired double digit growth.

Financial Inclusion through Financial Literacy

- Financial Inclusion and Financial Literacy are twin pillars: -
  - Financial Literacy stimulates the demand side – **making people aware of what they can demand**.
  - Financial Inclusion acts from supply side providing the **financial market/services what people demand**.
Financial Literacy for Financial Inclusion

Demand Side Problems

- Literacy level very low
- Located mostly in rural / remote areas.
- Disadvantaged social group
- Dependent mainly on informal sources of credit from moneylenders on exploitative terms
- Financial exclusion more severe with high credit gap in 256 districts identified by Rangrajan committee.

Supply Side Challenges

- Distance from banks
- Appropriate product
- Convenient Timing,
- Attitude of staff
- Proof of identity
- Large number
- Low value
- High transaction cost, etc.
Financial Literacy for Financial Inclusion

**Financial Literacy** has three components: -

1. Personal financial management.
2. Information about various financial services, products to choose from.
3. Operational knowledge.

Elementary Approach

Financial Education included in the school curriculum in several States
Financial Literacy Initiatives by banks - Illustrations

- There are 218 Financial Literacy and Credit Counselling Centres set up by banks in 20 States covering around 1000 people per centre. Over 3,00,000 people covered so far.

- Lead banks in all districts advised to intensify credit counselling activities
Key to Success – Collaboration

- Governments- Central and State
- RBI, IRDA, SEBI, PFRDA, NHB and other regulators
- Banks, Insurance Companies, MFs, other FIs and Intermediaries, Industry Associations
- NGOs and Consumer Organizations
- Global Co-operation

For Financial Access and Education

Imperatives to succeed ……

- The key is establishing an appropriate Business Delivery Model through the involvement of all stakeholders to make Financial Inclusion a reality
- Access to financial services and Financial Education must happen simultaneously
- It must be continuous and must target all sections of the population simultaneously
Financial Literacy – Initiatives by RBI-excerpts

- Outreach Programmes:
  - 76 programmes have been conducted across the country focusing on twin objectives of financial inclusion and financial literacy in which the Governor/ Deputy Governors / Executive Directors of RBI participated.

- Besides this, more than 150 Outreach programmes have been conducted as on date by the Regional Offices and Offices of the Banking Ombudsman as part of the Financial Literacy initiatives.

- 160 remote unbanked villages selected for transformation into model villages characterized by 100% financial inclusion through ICT initiatives, leveraging on BCs and BF.

- Release of a book titled 'I can do Financial Planning' on financial education.

- Organisation of Town Hall events and release of films on financial literacy.

Financial Inclusion Plan Aggregates

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Parameter</th>
<th>As at end March 2010</th>
<th>As at end March 2011</th>
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<tbody>
<tr>
<td>1</td>
<td>Total Number of villages covered</td>
<td>54,757</td>
<td>99,840</td>
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<tr>
<td>2</td>
<td>Villages covered through branches</td>
<td>21,499</td>
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<td>3</td>
<td>Villages covered through Business Correspondents (BCs)</td>
<td>33,158</td>
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<td>4</td>
<td>Other modes like Rural ATMs, Mobile Van, etc.</td>
<td>100</td>
<td>355</td>
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<td>5</td>
<td>Number of villages &gt; 2000 population covered</td>
<td>27,743</td>
<td>53,395</td>
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<td>6</td>
<td>Number of villages &lt; 2000 population covered</td>
<td>27,014</td>
<td>46,443</td>
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<td>7</td>
<td>No. of BCs employed by banks</td>
<td>33,042</td>
<td>58,351</td>
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<tr>
<td>8</td>
<td>Number of No-Frills Accounts (NFAs) opened (in million)</td>
<td>49.55</td>
<td>74.30</td>
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<td>9</td>
<td>Amount in NFAs (Rs. in million)</td>
<td>489,525</td>
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<td>10</td>
<td>Number of NFAs with Overdraft (OD) facility (in million)</td>
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<td>NFAs with OD - Amount outstanding (Rs. million)</td>
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<td>Number of Kisan Credit Cards (KCCs) issued (in million)</td>
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<td>Number of General Credit Cards (GCCs) issued (in million)</td>
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<td>15</td>
<td>Amount outstanding in GCCs (Rs. million)</td>
<td>8,398</td>
<td>13,077</td>
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24-Jun-2011
Road Ahead

Consolidated FIP

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<td>Villages covered through branches</td>
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<td>Other modes like Rural ATMs, Mobile Vans, etc.</td>
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<td>Number of villages &gt; 2000 population covered</td>
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<td>Number of villages &lt; 2000 population covered</td>
<td>1,33,816</td>
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<td>No. of BCs employed by banks</td>
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<td>Number of No-Frills Accounts (NFAs) opened (in million)</td>
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<td>Number of NFAs with Overdraft (OD) facility (in million)</td>
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<td>11</td>
<td>NFAs with OD - Amount outstanding (Rs. million)</td>
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<td>22,286</td>
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<td>Amount outstanding in KCCs (Rs. million)</td>
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<td>Number of General Credit Cards (GCCs) issued (in million)</td>
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<td>15</td>
<td>Amount outstanding in GCCs (Rs. million)</td>
<td>32,291</td>
<td>56,597</td>
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</table>

Thank you.

deeplipantjoshi@rbi.org.in