



FINANCIAL INCLUSION & FINANCIAL LITERACY

BI OECD SEMINAR – Roundtable on the updates on
Financial education and Inclusion programmes in India

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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



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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 BUUILDING BASIC FINANCIAL SKILLS AND IS A CONTINUOUS PROCESS**

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Strategy

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

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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.

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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

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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.

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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**

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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.

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Financial Literacy for Financial Inclusion

Supply Side Challenges

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

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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.

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Elementary Approach



Financial Education included in the school curriculum in several States

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Consumer Protection - Alerts

Beware of Fictitious Mails offering Money

Fraudulent offers of huge money in foreign exchange are being made through letters/emails by certain foreign entities or individuals, including Indian residents acting as representatives of such entities or individuals. The offers of huge money in foreign currency are made to resident individuals/entities (including schools/hospitals) on the pretext of helping them in their business/ventures in India. Once the contact is established, the entities request for details of bank account of the individuals or Indian entity and ask for some amount to be remitted to them as initial deposit/commission so that the offer money could be transferred. Even copies of fake certificates or deposit receipts purported to have been issued by the Reserve Bank of India are produced by such operators.

The Reserve Bank of India has cautioned members of public:

- Not to fall prey to fictitious offers of winnings in lottery coming through emails, post or courier, etc.
- Not to make any payment or remittance towards participation in such schemes/offers from unknown entities.
- That remittance in any form towards participation in lottery schemes is prohibited under Foreign Exchange Management Act, 1999; and that
- The Reserve Bank of India does not maintain any account in the name of individuals/companies/trusts in India to hold funds for disbursement.



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Do Not Fall Prey to Fictitious Offers of Cheap Money

The Reserve Bank of India cautions the public:

- Not to fall prey to fictitious offers for cheap funds and expensive items claimed to have been received by overseas entities to
- Not to make any remittance towards participation in such schemes/offers from unknown entities, including lottery schemes.

Ministry of Consumer Affairs, Food and Public Distribution
Department of Consumer Affairs, Government of India,
C-11, Pitambara, New Delhi-110 001. Website: www.mca.gov.in

National Consumer Helpline No. 1800-11-2000 (8 Free) from BSNL/PTTL; Toll-free 27422955-56, 57, 58 (Direct Call Charge: Rs.10/- per min) to **Ministry of Consumer Affairs**

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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

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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**

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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

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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 BFs.
- 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

Consolidated FIP

Sl. No.	Parameter	As at end March 2010	As at end March 2011
1	Total Number of villages covered	54,757	99,840
2	Villages covered through branches	21,499	22,684
3	Villages covered through Business Correspondents (BCs)	33,158	76,801
4	Other modes like Rural ATMs, Mobile Van,s etc.	100	355
5	Number of villages > 2000 population covered	27,743	53,397
6	Number of villages < 2000 population covered	27,014	46,443
7	No. of BCs employed by banks	33,042	58,351
8	Number of No-Frills Accounts (NFAs)opened (in million)	49.55	74.39
9	Amount in NFAs (Rs. in million)	48952	65657
10	Number of NFAs with Overdraft(OD) facility (in million)	0.14	4.2
11	NFAs with OD- Amount outstanding (Rs. million)	91	1987
12	Number of Kisan Credit Cards (KCCs) issued (in million)	19.5	22.49
13	Amount outstanding in KCCs (Rs. million)	10,75,187	14,38,622
14	Number of General Credit Cards (GCCs) issued (in million)	0.67	0.95
15	Amount outstanding in GCCs (Rs. million)	8,398	13,077

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Road Ahead

Consolidated FIP

Sl. No.	Parameter	Mar 12 - Targets	Mar 13 - Targets
1	Total Number of villages covered	2,23,473	3,48,283
2	Villages covered through branches	24,618	25,694
3	Villages covered through Business Correspondents (BCs)	1,97,523	3,20,441
4	Other modes like Rural ATMs, Mobile Van,s etc.	1361	2177
5	Number of villages > 2000 population covered	89,657	93,630
6	Number of villages < 2000 population covered	1,33,816	2,54,653
7	No. of BCs employed by banks	1,25,988	1,87,972
8	Number of No-Frills Accounts (NFAs)opened (in million)	109.6	153.3
9	Amount in NFAs (Rs. in million)	93,110	113,233
10	Number of NFAs with Overdraft(OD) facility (in million)	36.3	53.3
11	NFAs with OD- Amount outstanding (Rs. million)	14,458	22,282
12	Number of Kisan Credit Cards (KCCs) issued (in million)	32.3	40.7
13	Amount outstanding in KCCs (Rs. million)	15,21,135	17,92,548
14	Number of General Credit Cards (GCCs) issued (in million)	4.68	8.11
15	Amount outstanding in GCCs (Rs. million)	32,291	56,697



Thank you.

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