



Financial Inclusion & Postal Banking The India Story



A Presentation by
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Financial Inclusion : Definition



“the process of ensuring access to financial services or making available timely and adequate credit when needed by vulnerable groups , such as weaker sections and low income groups , at an affordable cost ”

- Dr. C Rangarajan

Chairman,

Economic Advisory Council to the Prime Minister of India

“‘no-frills’ accounts with perhaps a small overdraft facility, should be the easiest way for financial inclusion”

- Dr. Y V Reddy

Former Governor

Reserve Bank of India

Inclusive Growth & Financial Inclusion in India



Phase I (1960 – 1980)

Social control of Banks (1960)

Nationalisation of Banks (1969)

Lead Bank scheme (1969)

Priority Sector lending stipulation by RBI (1972)

Setting up of Regional Rural Banks (1975)

Inclusive Growth & Financial Inclusion in India >>



Phase II (1980 – 2000)

NABARD , NHB and SIDBI, Institutions actively involved in FI, were set up

Microfinance programme– SHG -Bank linkage facilitated by NABARD

Growth of Micro Finance Institutions

Financial Inclusion : RBI's Broad View



- Connecting people to the banking system, not just credit dispensation
- Access to payments system
- Use multiple channels such as civil service organisations, NGOs , post offices, farmers' clubs, panchayats (local political bodies), MFIs etc to expand outreach
- To adopt a decentralised approach, which is state and region specific
- Make use of ICT, using biometric and mobile hand-held electronic devices by agents of banks, such as business facilitators / correspondents
- Aim at continuous evaluation, sharing of experiences, feedback and improvement.

Inclusive Growth & Financial Inclusion in India



Phase III (2001 onwards)

- KCC / GCC Guidelines
- RBI in its Annual Policy Statement 2005-06 exhorts banks to achieve greater financial inclusion
- Committee on Financial Inclusion set up by Government of India
- RBI encourages Banking Facilitators/Banking Correspondents
- RRBs / Co-op Banks to sell insurance and financial products



- Constitution of the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF), with an overall corpus of \$ 250 m
- Mobile telephone guidelines for banks
- Financial Literacy and Credit Counseling Centres
- Relaxed guidelines for ATMs
- 431 districts identified for 100 per cent FI by SLBC Convenor Banks

Population Per Bank Branch (SCBs)



End-March	Rural	Urban	Total (Thousand)
1969 (June)	82	33	63
1981	20	17	19
1991	14	16	14
2001	16	15	16
2007	17	13	16

Source: Report on Currency and Finance 2006-08 (BSR of SCBs)

Number of people per branch still very high

Earners Having a Bank Account - 2007



Annual Income (Rs.)	Urban	Rural	Total
<50,000	43.1	26.8	28.3
50,000 – 100,000	75.5	71.2	73
100,000 – 200,000	91.8	87.4	89.9
200,000 – 400,000	95.5	93.6	94.9
>400,000	98.0	96.3	97.6
<i>All</i>	<i>61.7</i>	<i>38.0</i>	<i>44.9</i>

Source: Report on Currency and Finance 2006-08

Access to Savings Accounts



Savings		
<i>No. of Accounts with Institutions – in Millions</i>		
	<i>2002</i>	<i>2007</i>
Scheduled Commercial Banks	246.5	320.9
Regional Rural Banks	36.7	52.7
<i>Sub-total</i>	<i>283.2</i>	<i>373.6</i>
Others: Primary Agriculture Credit Societies	102.1	125.8
Urban Cooperative Banks	41.6	50.0
Post Offices	60.2	60.8
<i>Total</i>	<i>487.1</i>	<i>610.2</i>
<i>No. of Accounts per 100 Adults</i>		
<i>All Institutions</i>	<i>72</i>	<i>82</i>
Source: Report on Currency & Finance 2006-08		

Access to Credit



Credit		
<i>No. of Accounts with Institutions – in Millions</i>		
	2002	2007
Scheduled Commercial Banks	43.3	76.6
Regional Rural Banks	12.6	15.0
<i>Sub-total</i>	<i>55.9</i>	<i>91.6</i>
Others: Primary Agriculture Credit Societies	55.5	47.9
Urban Cooperative Banks	4.4	7.1
Self Help Groups	7.4	40.5
<i>Total</i>	<i>123.3</i>	<i>187.1</i>
<i>No. of Accounts per 100 Adults</i>		
<i>All Institutions</i>	<i>18</i>	<i>25</i>
Source: Report on Currency & Finance 2006-08		

No-Frills Accounts – Banks' Progress



Category	31 March 2006	31 March 2007	31 March 2008*
Public Sector Banks	332,878	5,865,419	13,925,674
Private Sector Banks	156,388	856,495	1,879,073
Foreign Banks	231	2,753	33,115
<i>Total</i>	<i>489,497</i>	<i>6,724,667</i>	<i>15,837,862</i>

* Provisional

Source: Reserve Bank of India

Financial Inclusion: A Synoptic View



- Number of No-Frill Accounts – 3,30,24,761 and end-March 2009
- Number of rural bank branches – 31,727 constituting 39.7% of total bank branches (as on 30 June 2009)
- Number of ATMs – 44,857 (as on 31 May 2009)
- Number of POS – 4,70,237 (as on 31 May 2009)
- Number of Cards – 167.09 million (as on 31 May 2009)

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- Number of Kisan Credit Cards – 76 million (Source: CMIE 2007-08)
- Number of Mobile phones – 403 million (as on 30 April 2009)
 - ◆ Out of which 187 million (46%) do not have a bank account
 - ◆ (Source: Cellular Operators Association of India)
- Self-Help Groups – wherein the borrowers numbers grew from 10 million to 40.5 million
- MFIs the borrowers grew from 1.1 million to 14 million

Major recommendations of the Committee on Financial Inclusion under Dr. C. Rangarajan



- National Rural Financial Inclusion Plan with target to provide comprehensive financial services to at least 50% (55.77 million) financially excluded by 2012 , and the remaining by 2015
- Financial Inclusion Promotion & Development Fund to focus on Farmers' Service Centres, rural entrepreneurship , developing HR of banks, and BCBF and the Financial Inclusion Technology Fund to focus on funding low cost technology solutions
- Use of PACSs for BCBF
- Micro finance-NBFCs may be permitted to provide financial services upto specified amounts to the poor in rural, semi-urban, and urban areas

Financial Inclusion: The Way Forward



Major Constraints

- Opening of Bank Accounts-KYC requirements
- Access & Delivery Mechanism
- Transaction Cost
- Financial Literacy



Emerging Solutions

- Unique ID (UID) to be given for every Indian will eliminate need for KYC
- Recent RBI recommendations on Kirana shops and STD PCOs to be used as Banking Correspondents to facilitate access and delivery
- Technology giants and banks to exploit the rapidly growing mobile phone market in India (currently around 450 million and growing at the rate of 15 million a month) to facilitate safe mobile banking
- Financial Literacy and Credit Counselling Centres to be set up by banks to facilitate comprehensive information on financial services through single window

Post Office Savings Bank



- Apart from the banking system, the Post offices in India also provide comprehensive financial services in the form of savings, deposits, insurance, and money remittance.
- The Indian Postal Service with 1,55,016 post offices at end-March, 2005 is the most widely spread post office system in the world
- It has 160 million account holders with a deposit base of 2, 60,000 crore rupees. It is fully government owned, has the best Know Your Customer information base, and enjoys great trust with the public.

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- Post Office Savings Bank (POSB) functions under the Government Savings Bank Act 1873 . It enjoys the status of Special Institution under the Banking Regulation Act 1949 and has been taking part in the Clearing House as a member like other banks

Preparation for the Future

- ◆ India Post to offer core banking services by 2011
- ◆ Post office internet kiosks soon in rural post offices
- ◆ Post office as Mega Banking Correspondent

Financial Inclusion: India Post



- With 1, 39,000 post offices in rural areas, and around 3,00, 000 , grameen dak-sevaks , India Post is ideally suited to make a dent in rural poverty.
- Its current tie-ups with banks ,financial institutions,mutual funds, etc as also servicing the payments under different social welfare and employment schemes of the Government, have helped to put the financial inclusion process on the fast track.
- Its strength in the form of reliable cash management, time tested accounting procedures and low cost of operations, along with rural orientation of staff makes it one of the most preferred Banking Correspondents.

India Post as Post Bank: Issues



- No Strategic Action plan or road map yet
- Global postal banking models are not really compatible with the organisational structure of India Post
- Current arrangement with the Ministry of Finance to be sorted out
- Comprehensive manpower planning, capacity building in technical skills for handling banking operations, and general technological upgradation
- Most of the global models envisage a public-private partnership, hence, political will as well as industrial relations will play a role



Thank You