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FINANCIAL INCLUSION AND FINANCIAL LITERACY

WHAT IS FINANCIAL INCLUSION?

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society.

Financial Inclusion is the process of ensuring access to financial products and services needed **by vulnerable groups at an affordable cost in a transparent manner by institutional players.**

FINANCIAL INCLUSION BY EXTENSION OF BANKING SERVICES

1. Use of Business Facilitators and Correspondents

The RBI has decided to enable the banks to **use the services of NGOs/SHGs, Microfinance institutions (MFIs) and other Civil Society Organisations (CSOs) as intermediaries in providing financial and banking services**

Business Facilitator Model

Eligible entities and scope of activities under the 'Business Facilitator' model, banks may use intermediaries, such as NGOs/farmers' clubs, co-operatives, community-based organizations,

it enabled **rural outlets of corporate entities, post offices, insurance agents, well-functioning Panchayats, village knowledge centres, Agri-clinics/agri-business centres, Krishi Vigyan Kendra's (KVKs) and KVIC/KVIB units**, depending on the comfort level of the bank, for providing facilitation services.

Such services may include:

a) identification of borrowers and fitment of activities;
b) collection and preliminary processing of loan applications including verification of primary information/data;
c) creating awareness about savings and other products, education and advice on managing money and debt counselling;
d) processing and submission of applications to banks;
e) promotion and nurturing self-help groups/joint liability groups;
f) post-sanction monitoring;
g) monitoring and hand holding of self-help groups/joint liability groups/credit groups/others:
h) follow-up for recovery.

As these services are not intended to involve the conduct of banking business by business facilitators, **no approval is required from RBI for using the above intermediaries for facilitation of the services indicated above.**

Business Correspondent Model: Eligible Entities and Scope of Activities

Under the 'Business Correspondent' model, NGOs/MFIs set up under the Societies/ Trust Acts, societies registered under the **Mutually Aided Co-operative Societies Acts or the Co-operative Societies Acts of States, registered NBCs** not accepting public deposits and post offices may act as business correspondents.

In engaging such intermediaries as business correspondents, banks should ensure that they **are well established, enjoying a good reputation and having the confidence of the local people.**

Scope of activities:

- disbursal of small value credit;
- recovery of principal/collection of interest;
- collection of small value deposits;
- sale of micro-insurance/mutual fund products/pension products/other third-party products; receipt and delivery of small value remittances/other payment instruments;
- The activities undertaken by the business correspondents would be within the normal course of the bank's banking business, but conducted, through the entities indicated above at places other than the bank premises.

2. Financial Inclusion Plans

The guidelines on FIP for Small Finance Banks are:

- SMFs shall adopt the template of Financial Inclusion Plan provided by RBI to submit granular data up to district level across the four population groups, namely- **Metropolitan, Urban, Semi Urban and Rural.** The date of submission of the monthly progress shall be 15th day of the month succeeding the month to which the data relates.

- SFBs may **formulate a policy for engaging Business Correspondents** (BCs), with the approval of their Board of Directors;
- Boards of the banks must review the operations of the BCs at least **once every six months** with a view
- Ideally in all normal cases, the prefunding should progressively come down in such a manner so as to reach around 15% of the limits fixed for each BC/CSP in case of deposits and 30% in case of Bank Guarantees, in two years from the time a BC starts operations.

ROLE OF ICT IN FINANCIAL INCLUSION

- Information and Communications Technology (ICT) is often used as an extended synonym for Information Technology (IT)
- The term ICT is also used to refer to the convergence of audio-visual and telephone networks with computer networks through a single cabling or link system.
- There are large economic incentives (huge cost savings due to elimination of the telephone network) to merge the **telephone network with the computer network system using a single unified system of cabling, signal distribution and management.**

Use of technology:

Recognizing that technology has the potential to **address the issues of outreach and credit delivery in rural and remote areas in a viable manner**, the banks have been advised to make effective use of (ICT)

USE OF MOBILES/TABLETS IN FINANCIAL INCLUSION DRIVE

- Banks have introduced two different products in mobile banking. One is **a personal/retail banking product** and the other is a product to **promote financial inclusion**.
- As a personal banking product, it is offered to every **savings/current account holder and provides anytime anywhere banking**.
- The mobile banking initiatives were started by foreign and private banks followed by public sector banks.

Leveraging Mobile Banking for Financial Inclusion

Mobile banking service is primarily available over **SMS** (Short Messaging Service) or **through GPRS** (General Packet Radio Service) or sometimes through **USSD** (Unstructured Supplementary Service Data), use of Bharat QR Code, **United Payment Interface** (UPI), Immediate Payment Service (IMPS), **Bharat Interface for Money** (BHIM) App.

The services available are:

- Funds transfer (intra and interbank)
- Balance enquiry services/mini statement
- Request services (cheque book)
- Utility bill payments and credit card payments

- 'Dematerialized account' services
- Mobile top up
- Merchant payment, life insurance premium
- Stop payment instructions

FINANCIAL LITERACY

Financial Literacy is the process by **which people improve their knowledge and understanding of the use of the financial products and services.**

It is also described as one's **ability to make informed judgments and to take effective decisions regarding the use and the management of money.**

Financial Inclusion and Financial Literacy are twin pillars: -

- Financial Literacy stimulates the demand side - making people aware of what
- Financial Inclusion acts from supply side providing the financial market/ services what people demand.

Importance of Financial Literacy

- Financial literacy can help them prepare ahead of time for life cycle **needs and deal with unexpected emergencies, without assuming unnecessary debt**.
- In rural areas, especially in areas of rain-fed agriculture, vagaries of monsoon, coupled with lack of adequate risk mitigation policies lead to hardship for the rain-dependent segment of the farming population.
- This needs to be considered in conjunction with the fact that the levels of literacy in our country are still relatively modest at 65.4% in the year 2001, with wide differentials between urban and rural areas.
- In 2001, the proportion of rural literate was about 59% as compared to 80.3% in the urban areas.

Issues in Financial Literacy in India

• A large population of alphabetically illiterate population requiring basic financial knowledge

• A large section of financially excluded population need to be told of the benefits of financial inclusion

• A large growing segment of educated middle class-requiring financial education

• A growing capital market with increasing retail participation requiring financial education and consumer protection

- A growing insurance market with participation of private players need consumer protection and financial education
- A large section of workers having no pension.

Financial Literacy- for Whom?

- Contrary to popular perception, financial literacy has to be imparted to everyone in the economy viz. users and providers.
- In the Indian context, the users are broadly the financially excluded **resource-poor, the lower- and middle-income groups and high net worth individuals**.
- Equally important, banks, **financial institutions and other market players too need to be literate about their risks and returns framework.**
- Last, but not the least, policymakers including **the financial sector regulators** must have financial literacy to comprehend and gauge the requirement of the population and financial institutions to **drive the agenda**.
- But, naturally, the message to be conveyed, **the method of communication, the language of communication, the complexity of subjects etc.** would have to be tailored to suit the target audience.

How it is being imparted?

- RBI has directed banks to establish financial literacy centres.
- The centres are disseminating information on the general banking concepts to **diverse target groups**, including school and college students, women, rural and urban poor, pensioners and senior citizens to enable them to make informed financial decisions.
- There are nearly **895 financial literacy centres set up by banks.**
- Financial Literacy Centres organize 'Outdoor Literacy camps', which are spread over a period of three months and **delivered in three phases wherein, along with creating awareness, accounts are also opened in the Literacy camps.**

Initiatives taken by Reserve Bank of India

- The Reserve Bank has undertaken a project titled 'Project Financial Literacy'.
- The objective of the project is to **disseminate information regarding the central bank and general banking concepts** to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens.
- It would be disseminated to the target audience with the help, among others, of banks, local government machinery, NGOs, schools, and colleges through presentations, pamphlets, brochures, films, as also through the Reserve Bank's website.

- The Reserve Bank has already created a **link on its web site** for the common person to give him/her, the **ease of access to financial information in English and Hindi and 12 Indian regional languages.**

Conduct of Financial Literacy Camps

- Rural banking outlets manned by bank's own staff of SFBs are required to conduct one camp per month (on the Third Friday of each month after branch hours.
- This camp will cover all the messages that are part of the Financial Awareness Messages (FAME) booklet and the two digital platforms UP and *99# (USD).
- In case there are two or more such outlets in a village, the LDM may ensure that such outlets to conduct the camps on rotation basis every month.

Funding support from Financial Inclusion Fund (FIF)

- Rural banking outlets manned by bank's own staff of SFBs are eligible for funding support for the financial literacy camps to the extent **of 60% of the expenditure of the camp subject to a maximum of Rs 5,000/- per camp**.
- The impact of the financial literacy camps will be assessed / evaluated on an ongoing basis by the Lead District Officers (LDOs) of Reserve Bank of India.

RURAL SELF EMPLOYMENT TRAINING INSTITUTES (RSETIs)

- RSETIs are managed by Banks with active **co-operation from the Government of India and State Government.**
- Dedicated institutions are designed to ensure **necessary skill training and skill upgradation of the rural Below Poverty Line** (BPL) youth to mitigate the unemployment problem.
- These are promoted and managed by banks with active co-operation from state governments.
- RSETI concept is based on RUDSETI (Rural Development and Self Employment Training Institute), a society established jointly by three agencies i.e., Syndicate Bank, Canara Bank and Sri Manjunatheswara Trust based at Ujire in Karnataka.
- One RSETI is established in every district in the country. Concerned bank is the lead bank in the district and takes responsibility for creating and managing it.
- Government of India will provide one - time grant assistance, up to a maximum of 1 crore for meeting the expenditure on construction of building and other infra-structure.

Infrastructure

• The common minimum infrastructure of each RSETI will be 2-3 classrooms with toilet facilities (separate for women and physically challenged friendly).

• Two workshops, two dormitories with bath facilities.

• Adequate physical infrastructure for training, administration, hostel, staff quarters, etc.

Programme Structure & Contents

Each RSETI should offer **30 to 40 skill development programmes** in a financial year in various avenues. The programmes are of short duration ranging **from 1 to 6 weeks** and could fall into the categories listed below:

Agricultural Programmes - agriculture and allied activities like dairy, poultry, agriculture, horticulture, sericulture, mushroom cultivation, floriculture, fisheries, etc.

Product Programme - dress designing for men and women, manufacturing articles using refine, incense sticks manufacturing, football making, bag, bakery products, leaf cups making, recycled paper manufacturing, etc.

Process Programmes - two-wheeler repairs, radio/TV repairs, motor rewinding, electrical transformer repairs, irrigation pump-set repairs, tractor and power tiller repairs, cell phone repairs, beautician course, photography and videography, screen printing, domestic electrical appliances repair, computer hardware and DTP.

General Programmes - skill development for women

Other Programmes - related to other sectors like leather, construction, hospitality and any other sector depending on local requirements.

Selection of Trainees & Batch Size

- At least **70% of the trainees should be from the rural BPL category** certified by the DRRA. Proper weightage, as per SGSY guidelines will be given to SC/ STs, minorities, physically challenged and women.
- An ideal size of a batch should be 25-30 candidates.
- Shramadan/Yoga, presentation of MILLY would become a common input in training module.
- Recognition of RSETI trainees.
- Certificates issued by an RSETI will be recognised by all banks for purposes of extending credit to the trainees. It means that RSETI trained rural youths will be free to access any scheduled bank for loan/credit.

Credit Linkage

Credit needs of trainees will be appraised by RSETIs and the sense will be conveyed to the bank branches. The trainees could avail bank loans under **SGSY or any other government sponsored programmes.**

THE DEPOSITOR EDUCATION AND AWARENESS FUND SCHEME, 2014

- Pursuant to the amendment of the Banking Regulation Act, 1949, section 26A has been inserted in that Act, empowering Reserve Bank to establish The Depositor Education and Awareness Fund.
- Under the provisions of this section, **the amount to the credit of any account in India with any bank which has not been operated upon for a period of ten years or any deposit or any amount remaining unclaimed for more than ten years shall be credited to the Fund, within a period of three months from the expiry of the said period of ten years:**

Accounts from which the credit balances are to be transferred by banks to RBI

- savings bank deposit accounts.
- fixed or term deposit accounts;
- cumulative/recurring deposit accounts;
- current deposit accounts;

- other deposit accounts in any form or with any name; (f cash credit accounts;
- loan accounts after due appropriation by the banks;
- margin money against issue of Letter of Credit/Guarantee etc., or any security deposit:
- outstanding telegraphic transfers, mail transfers, demand drafts, pay orders, banker's cheques, sundry deposit accounts, vostro accounts, inter-bank clearing adjustments, unadjusted National Electronic Funds Transfer (NEFT) credit balances and other such transitory accounts, unreconciled credit balances on account of Automated Teller Machine (ATM) transactions, etc.;
- undrawn balance amounts remaining in any prepaid card issued by banks but not amounts outstanding against traveller's cheques or other similar instruments, which have no maturity period;
- rupee proceeds of foreign currency deposits held by banks after conversion of foreign currency to rupees in accordance with extant foreign exchange regulations:

Utilisation of Funds

The Fund will be utilized for promotion of depositors' interest and for such other purposes which may be necessary for the promotion of depositors' interests as specified by RBI from time to time

SHG-BANK LINKAGE PROGRAMME FOR SMALL FINANCE BANKS

- Self- help groups (SHGs) is a small, homogenous affinity group of rural poor (10-20) comprising agricultural labour, small and marginal farmers, and micro entrepreneurs who have voluntarily come forward to form into a group. It can be a formal or informal group.
- Members of SHG **save and contribute to a common fund**, from which small loans are **lent to the needy members** as per the decision of the group. The concept underlines the principle of THRIFT (by way of compulsory savings) CREDIT and SELF HELP.
- Rural poor have the potential to save small amounts and have the inherent trait to help themselves through mutual trust and active participation.

SHG lending to be a part of planning process

- Lending to SHGs should be included in branch credit plan, block credit plan, district credit plan and state credit plan of each SFB.
- While no target is being prescribed under SHG bank linkage programme, utmost priority should be accorded to the sector in preparation of these plans. It should also form an integral part of the bank's corporate credit plan.

Opening of Savings Bank, A/c

- The SHGs registered or unregistered which are engaged in promoting savings habit among their members would be eligible to open savings bank accounts with SFBs.
- These SHGs need not necessarily have already availed of credit facilities from banks before opening savings bank accounts. **KYC verification of all the members of SHG shall not be required** while opening the savings bank account of the SHG as KYC verification of all the office bearers shall suffice.
- No separate KYC verification of the members or office bearers shall be necessary at the time of credit linking of SHGs.

Margin and Security Norms

As per operational guidelines issued by NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, **loans may be given beyond the limit of four times the savings, as per the discretion of the bank.**

Documentation

A simple system requiring minimum procedures and documentation is a precondition for augmenting flow of credit to SHGs.

Presence of defaulters in SHGs

Defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default to it. However, **the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.**

Capacity Building and Training

SFs may initiate suitable steps to internalize the SHGs linkage project and organize exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/sensitization programmes may be conducted for their middle level controlling officers as well as senior officers.

Monitoring and Review of SHG Lending

'The progress of the SHG programme may be reviewed by the SFBs at regular intervals. A progress report, as prescribed by RBI is required to be sent to NABARD (Micro Credit Innovations Department), Mumbai, on a half-yearly basis, as on 30

September and 31 March each year so as to reach within 30 days of the half-year to which the report relates.

Interest rates

SFBs would have the discretion to decide on the interest rates applicable to loans given by banks to Self Help Groups/member beneficiaries.

Service/ Processing charges

No loan related and ad hoc service charges/inspection charges should be levied on priority sector loans up to ₹25,000. In the case of eligible priority sector loans to SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole.

Total Financial Inclusion and Credit Requirement of SHGs

FBs have been advised to meet the entire credit requirements of SHG members namely, **(a) income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping**.

MICRO FINANCE

Loans to less privileged society is also given by Micro Finance Institutions (MFIs)

Bank loans to MFIs for on-lending

- Bank credit to MFIs extended for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., **Agriculture, Micro, Small and Medium Enterprises, Social Infrastructure and** Others, provided not less than 85% of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan, extended for income generating activity, should be not less than 50 per cent of the total loans given by MFIs.

- **A "qualifying asset" shall mean a loan disbursed by MFI, which satisfies the following criteria**:

a) The loan is to be extended to a borrower whose household annual income in rural areas does not exceed & 1,00,000/- while for non-rural areas it should not exceed ₹ 1,60,000/-.

b) Loan does not exceed ₹ 60,000 in the first cycle and ₹ 100,000 in the subsequent cycles.

c) Total indebtedness of the borrower does not exceed ₹ 1,00,000.

d) Tenure of loan is not less than 24 months when loan amount exceeds ₹15,000 with right to borrower of prepayment without penalty. The limit of the loans extended by Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) for which the tenure of the loan shall not be less than 24 months, has been raised to **₹30,000 from the earlier limit of ₹15,000.**

e) The loan is without collateral.

f) Loan is repayable by weekly, fortnightly or monthly instalments at the choice of the borrower

g) Further, the banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other pricing guidelines', to be eligible to classify these loans as priority sector loans.

Margin cap: The margin cap should not exceed 10% for MFIs having loan portfolio exceeding & 100 crore and 12 per cent for others.

The Interest cost is to be c**alculated on average fortnightly balances of outstanding borrowings** and interest income is to be calculated on **average fortnightly balances of outstanding loan portfolio of qualifying assets.**