

Notwithstanding the quantitative expansion of banks and branches, a significant portion of our society is deprived of basic banking facilities. Banking system in India has not reached a significant number of households in the rural area. This in a way suggests that the progress in the financial system has not benefited the poorer sections of the society. In a developing country like India, the basic issues such as poverty and unemployment cannot be addressed, unless the banking service is made available to the poorer sections of the society. The need for financial inclusion and initiatives to cover more and more of the excluded population by the financial system must be adequately addressed in the policy framework for development of the formal financial system in India.

1. What is financial inclusion?

By Financial inclusion we mean the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. Reserve Bank of India has urged banks to review their existing practices and to align them with the objective of financial inclusion.

2. What is the need for Financial Inclusion?

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have access to any source of funds – institutional or otherwise. Hardly, one-fourth of the rural households are assisted by banks. Hence, the major task before banks is to bring most of those excluded, i.e. 75 per cent of the total rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGOs and local development agencies. To start with, it is necessary to

develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood.

So there is a need for the formal financial system to look at increasing financial literacy and financial counseling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as part of their corporate social responsibility. Banks should conduct full-day programmes for their clientele including farmers for counseling small borrowers for making them aware on the implications of the loan, how interest is calculated and so on, so that they are totally aware of its features. There is clearly a lot requires to be done in this area.

3. What are the benefits of Financial Inclusion?

Financial Inclusion has many benefits. This paves the way for establishment of an account relationship which helps the poor people to avail a variety of savings products and loan products for housing, consumption, etc. This also enables the customer to remit funds at low cost. The government can utilize such bank accounts for social security services like health and calamity-insurance under various schemes for disadvantaged. From the bank's point of view, having such social security cover makes the financing of such persons less risky. Reduced risk means more flow of funds at better rates. Lastly, the Employment Guarantee Scheme of the Government which is being rolled out in 200 districts in the country would bring in large number of people through their savings accounts into the banking system.

4. What are the consequences of Financial Exclusion?

Consequences of financial exclusion will vary depending on the nature and extent of services denied. It may lead to increased travel requirements, higher incidence of crime, general decline in investment, difficulties in gaining access to credit or getting credit from informal sources at exorbitant rates, increased unemployment, etc. The small business may suffer due to loss of access to middle class and higher-income consumers, higher cash handling costs and delays in remittances of money.

5. What is the RBI's policy on financial inclusion?

With a view to enhancing the financial inclusion, as a proactive measure,

the RBI in its Annual Policy Statement of the year 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion.

- **No – Frills’ Account:**

In the Mid Term Review of the policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking ‘no frills’ account either with ‘NIL’ or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner.

All banks are urged to give wide publicity to the facility of such ‘no frills’ account, so as to ensure greater financial inclusion.

- **‘Simplification of ‘Know your Customer (KYC)’ Norms:**

Banks are required to provide a choice of a ‘no frills account’ where the minimum balance is nil or very small but having restrictions on number of withdrawals, etc., to facilitate easy access to bank accounts.

Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the ‘KYC’ procedure for opening accounts for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs.50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs.1,00,000/-) in a year has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts. In such cases banks can take introduction from an account holder on whom full KYC procedure has been completed and has had satisfactory transactions with the bank for at least six months. Photograph of the customer who proposes to open the account and his address need to be certified by the introducer.

Ensuring reasonableness of bank charges:

As the Reserve Bank has been receiving several representations from

public about unreasonable service charges being levied by banks. Accordingly, and in order to ensure fair practices in banking services, the RBI has issued instructions to banks making it obligatory for them to display and continue to keep updated, in their offices/branches as also in their website, the details of various services charges in a format prescribed by it. The Reserve Bank has also decided to place details relating to service charges of individual banks for the most common services in its website.

6. What are the major recommendations of the committee on procedures and performance audit on public services(CPPAPS)?

The monetary and credit policy for the year 2003-04, the RBI has brought into sharp focus the inadequacy in banking services available to common man. Accordingly, the CPPAPS under the chairmanship of Sri. S.S.Tarapore was set up. The committee made a number of recommendations covering individual customers dealing with the bank. Customer service-Institutional Machinery in banks should comprise –

- At the Board level, RBI has asked the bank to constitute a Customer Services Committee of the Board including invitee experts and representatives of customers to enable the bank to formulate policies and assess the compliance thereof internally.
- RBI has asked banks to convert the Ad-Hoc Committee of Executives on customer service headed by the CMD/ED into a Standing Committee that periodically reviews the policies and procedures and working of the bank's own grievance redressal machinery. These committees have been found to be very useful as the top management team is singularly focused on matters relating to customer services. At the meetings of these committees, decisions for improving services tend to be taken instantly, cutting across different departments.
- Each bank is expected to have a nodal department/official for customer service in the HO and each controlling office, whom customers with grievances can approach in the first instance and with whom the Banking Ombudsman(BO) and RBI can liaise. More interaction between the RBI/BO and the nodal officers will enable banks to take necessary correctives at the local level.

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