Sampoorn Vittiyea Samaveshan (SVS)

An approach paper

for

Comprehensive Financial Inclusion

By: Department of Financial Services

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1. Introduction:

The efforts to include the financially excluded segments of the society in India are not new. The concept was first mooted by the Reserve Bank of India in 2005. In the year 2011, the Government of India gave a serious push to the programme by undertaking the “Swabhimaan” campaign to cover more than 73,000 villages, with population more than 2,000 (as per 2001 census), with banking facilities.

However, one of the learnings from the campaign was that the efforts need to be converged so as to cover the various aspects to ensure Comprehensive Financial Inclusion. The campaign had focussed only on the supply side by providing banking outlets but the entire geography could not be covered. It also came out that some technology issues hampered further scalablity of the campaign, the deposit accounts so opened under the campaign had very limited number of transactions and the task of credit counselling and Financial Literacy did not go hand in hand. Consequently the desired benefits were not visible. Learning from the past, the present proposal of SVS is, therefore, an integrated approach to bring about comprehensive financial inclusion.

2. Financial Inclusion – Background:

‘Sampoorn Vitteeyea Samaveshan(SVS)’ (or Comprehensive Financial Inclusion) incorporates ensuring access to financial services and timely & adequate credit to the excluded sections i.e. weaker sections & low income groups.

It is a known fact that in India, while one segment of the population is deluged with assortments of banking services encompassing regular banking facilities & portfolio counselling, the other segment of underprivileged and lower income group is totally deprived of even basic financial services.

Exclusion of large segments of the society from financial services affects the overall economic growth of a country. It is for this reason that Financial Inclusion is a global concern. In Sweden and France, banks are legally bound to open an account for anybody who approaches them. In Canada, law requires Banks to provide accounts without minimum balance to all Canadians regardless of employment / credit history. In the United States, the Community Reinvestment Act (1977) is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighbourhoods, consistent with safe and sound operations.

In India, the Banking industry has grown both horizontally and vertically but the branch penetration in rural areas has not kept pace with the rising population and the need for accessible financial services. Even after decades of bank nationalization, whose rationale was to shift the focus from class banking to mass banking, we still find usurious money lenders in rural areas continuing to exploit the poor. After economic reforms of 1991, the country can ill-afford not to include the poor in the growth paradigm. Financial Inclusion of the poor will help in bringing them to the mainstream of growth and would also provide the Financial Institutions an opportunity to be partners in inclusive growth.

3. Financial Inclusion: Current Status - India

Despite various measures for financial inclusion, poverty and exclusion continue to dominate socio economic and political discourse in India even after six decades of post independence era. Through economy has shown impressive growth during post liberalization e of 1991, impact is yet to be percolated to all sections of the society and therefore, India is still home of 1/3rd of world's poor.

3.1 Financial Inclusion Plan – Summary progress of all Banks including RRBs, during three years period are as under:

Particulars	Year Ended, 2010	Year Ended, 2011	Year Ended, 2012	Year Ended, 2013
Banking Outlets in Villages a) Branches	33,378	34,811	37,471	40,837
b) BCs	34,174	80,802	1,41,136	2,21,341
c) Other modes	142	595	3,146	6,276
d) Total	**67,674**	**1,16,208**	**1,81,753**	**2,68,454**
Urban Locations through BCs	447	3,771	5,891	27,143
Basic Saving Bank Deposit A/c- branches				
a) No. in millions	60.19	73.13	81.20	100.80
b) Amt. in billions	44.33	57.89	109.87	164.69
Basic Saving Bank Deposit A/c- BCs				
a) No. in millions	13.27	31.63	57.30	81.27
b) Amt. in billions	10.69	18.23	10.54	18.22
OD facility availed in BSBDA's account				
a) No. in millions	0.18	0.61	2.71	3.92
b) Amt. in billions	0.10	0.26	1.08	1.55
KCCs (No. in millions)	24.31	27.11	30.24	33.79

Source: Table IV.4, RBI Annual Report, 2013

3.2 According to World Bank Findex Survey (2012) (http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2012/04/19/000158349_20120419083611/Rendered/PDF/WPS6025.pdf) , only 35% of Indian adults had access to a formal bank account and 8 % borrowed from a formal financial institution in last 12 months.. The miniscule number suggests an urgent need to further push the financial inclusion agenda to ensure that people at the bottom of the pyramid join the mainstream of the formal financial system.

3.3 The statistics show that there is substantial progress towards opening of accounts, providing basic banking services during the recent years as indicated above. However, it is essential that all the all sections to be financially included in order to have financial stability and sustainability of the economic and social order.

4. Mission Mode Objectives (6 Pillars):

The present proposal of SVS under the Mission Mode envisages provision of affordable financial services to all citizens within a reasonable distance. It comprises of the following six pillars:-

4.1 **Universal access to banking facilities**:- Mapping of each district into Sub Service Area(SSA) catering to 1000-5000 households in a manner that every habitation has access to banking services within 5 km by March,2016.

4.2 **Financial Literacy Programme**:- To be extended to the block level from district level at present by March, 2016.

4.3 **Providing Basic Banking Accounts**:- To all families and to all beneficiaries of Government schemes by March 2016 and then on an ongoing basis.

4.4 **Micro Credit availability & Creation of Credit Guarantee Fund for coverage of defaults in such accounts**:- Facility of an overdraft of Rs.5000/- through debit card to every basic banking account holder on completion of financial literacy training by March,2016.

4.5 **Micro Insurance:-** By March,2017 and then on an ongoing basis.

4.6 **Unorganized sector Pension schemes like Swavlamban**:- By March 2017 and then on an ongoing basis.

5. Strategy for achievement of Objectives :

In order to achieve the above objectives, a broad collaborative strategy with all stake holders is proposed. It is proposed to encourage Public-Private partnerships. Moreover the existing national infrastructure of post offices and the proposed setting up of payment banks would be optimally utilized to deliver the results. It is also envisaged that competition amongst multiple channels including Micro Finance Institutions (MFIs) would be encouraged. The strategy is to take forward the Business Correspondent model for expansion of banking services by modifying it to ensure both operational flexibility and viability of the Business Correspondents (BCs).

6. Implementation of Financial Inclusion in Mission Mode :

6.1. Reaching out – Network expansion and Geographical coverage of the banks:

6.1.1. The first and basic pillar of SVS is the expansion of banking network of the country to reach out to the financially excluded segments of the population. In the year 2013-14 the Public Sector Banks, set up 7840 branches across the country of which about 25% were in rural areas. However given the staff constraints of banks and the viability of opening full fledged branches in rural areas, the demands for branch expansion far exceed the supply. The only efficient and cost effective method is by way of mapping the entire country through Sub Service Area(SSA) approach and deploying fully enabled Business Correspondents. Public Private Partnerships in this area shall facilitate the process and promote efficiency and pace of coverage.

6.1.2. All about 6 lakh villages across the entire country are to be mapped according to the Service Area of each Bank to have at least one fixed point Banking outlet catering to 1000 to 1500 households, called as Sub Service Area (SSA). Villages with Panchayat offices can be made the nodal point. This approach was tried in 121 DBT districts and the entire mapping resulted in creation of 30855 SSAs. Of these, 30751 SSAs were saturated with banking facilities. It is estimated that across the country there would be about 1.6 lakh SSAs.

6.1.3. Villages without Brick and Mortar branches of banks would be covered by fixed location BC preferably in the panchayat office/ bus station/local market. He may cater to the neighbouring villages in his area on pre defined time and days. The working and visit timing would be prominently displayed at his place of working.

6.1.4. The BC would be fully equipped with the required infrastructure including the computers and other peripherals like micro ATM, Bio metric scanners and internet connectivity etc.

6.1.5. BCs need to carry out on-line transactions for which internet connectivity is essential. However as per the present status there may be certain connectivity related issues which need to be addressed particularly in the remote areas. Hence there would be a committee consisting of various stakeholders to sort out technology related issues.

6.1.6. Each BC would be given proper training about basic banking, insurance and pension products and also on customer handling.

6.1.7. Adequate compensation to the BC Agents would be ensured for enabling him to provide uninterrupted services particularly in the difficult rural and remote areas.

6.1.8. The suggested remuneration to reach the last mile BC agent would be Rs.5,000/- pm. While deciding upon the remuneration structure it would be ensured that his costs on Rent, electricity, internet, travelling etc are also accounted for.

6.1.9. Regular and timely payment to the BC agent for the services rendered by him would be the Key word.

6.1.10. Suggested variants of the BC structure could be :

6.1.10.1. Individual BC Agents deployed directly by the Bank.

6.1.10.2. Utilising the network of ‘Lok Mitra Kendras’ of CSC. Every state has a large network of these centres which are fully equipped with internet and computers etc. They are providing the G2C and C2C services. They can be very useful for fast and cost effective creation of BC network.

6.1.10.3. Through Corporate BC Companies i.e. through private participation. While this system has advantages of administration and centralised control for the Banks and also insulates them against several threats, but many times these players turn up in exploitation of the last mile delivery agents (BCA).

6.1.10.4. While engaging the Corporate BC Companies the remuneration structure for the agents deployed by them and time line for their payment would be ensured.

- **Summary of Action Points**:
  - Map the entire country with SSAs:- Identification of SSAs would need to be done at the district level through the District Level Coordination Committees (DLCCs)
  - The identified SSAs would need to be allocated to different banks
  - Coverage of the SSAs with Bank branches and Business Correspondents
  - Monitoring and follow up

6.2. Financial Literacy and Credit Counselling (FLCC)- Establishing adequate number of Financial Literacy Centre (FLCC) & Mechanism to increase financial literacy among the financially excluded sections:

The second important pillar focuses on preparing the people for financial planning and availing credit. It has been seen from the experience of microfinance firms as well as Self Help Groups (SHGs) that before availing credit, people need to be made aware of the advantages of access to formal financial system, savings, credit, importance of timely repayments and building up a good credit history. As per RBI, 718 Financial Literacy Centres (FLCs) have been set up as at end of March, 2013. A total of 2.2 million people were made aware through awareness camps / choupals, seminars and lectures during 2012-13. However most of these FLCs have not been set up in rural areas. SVS would aim to expand the FLCCs to the block level. The focus would be on availing credit and coming out of the exploitation by informal financial system:-

6.2.1. Financial literacy is a prerequisite for effective financial inclusion, which will ensure that financial services reach the unreached and under-reached sections of the society. Financial markets now offer complex choices to consumers, but literacy is essential for consumers to make informed choices. Informed choices will help in demand generation of the financial services.

6.2.2. In countries with diverse social and economic profile like India, financial literacy is particularly relevant for people who are resource-poor, who operate at the margins and are vulnerable to persistent downward financial pressures. With no established financial awareness, the un-banked poor are pushed towards expensive alternatives.

6.2.3. India is among the world's most efficient financial markets in terms of technology, regulation and systems. Financial literacy is most important for India as it is a developing country with problem of poverty in addition to illiteracy and population. Financial literacy is considered an important adjunct for promoting financial inclusion and ultimately financial stability of the global economy. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population, remaining out of the formal financial set-up.

6.2.4. While savings as a percentage of GDP in India is fairly good, where the savings are invested is a cause for concern. Further only a minority of Indians are covered by mandated, and/or government financed social security schemes and social safety nets. We need to convert a country of savers into a nation of investors. Everyone saves money for future needs but the approach most of the time is to save surplus money without preparing household budgets & without prioritizing personal needs.

6.2.5. Impact of financial illiteracy: Recent experiences in the microfinance arena have shown that poor people take loans that they have no capacity to service. Farmers have also taken loans that they have not been able to repay. Many have been driven to suicide because of debt problems. Unless financial literacy goes hand in hand with financial inclusion, instead of helping the poor, they may be put into more trouble.

6.2.6. National Institute of Securities Market (NISM) has set up National Centre for Financial Education (NCFE) with the support of all the financial sector regulators in India: RBI, SEBI, IRDA, PFRDA and FMC, to further the cause of financial literacy and inclusion in India in a collaborative manner. Role and functionality of NCFE would be strengthened.

- **Summary of Action Points**:
  - Revamping and expansion of FLCCs upto the block level to increase its scope
  - Finalizing the course material in consultation with all stake holders
  - Effective use of technology for training through Video Conferencing
  - Monitoring and follow-up

6.3. Opening of Basic Saving Bank account to every adult citizen:

The third pillar of SVS envisages to provide basic bank accounts to all citizens. The Financial Inclusion campaign in the past has targeted opening of basic savings accounts. As per RBI estimates, by March 2013, 182 million basic savings accounts were opened till March, 2013 (http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862). However, there could be individuals with multiple bank accounts as well as non operative accounts. Therefore, the challenge of getting a bank account opened remains with a large segment of the rural as well as urban population. Many of the accounts opened do not have sufficient number of transactions for banks to find them viable. This was because these accounts were being opened in isolation without proper linkages. Under SVS, this anomaly is proposed to be removed by its six pillar approach. Moreover, the accounts will also be ATM enabled to get the benefits of flexibility.

6.3.1. Opening of SB account with zero balance. For ease of opening of accounts Banks would be advised to take benefit of e-KYC approach.

6.3.2. Each SB account holder to be on the main CBS platform of the Bank and would be given ATM/Debit (Rupay) card.

6.3.3. This account would be linked with the Aadhaar number of the account holder and would become the single point for receipt of all Government benefits (DBT).

6.3.4. Each account holder would immediately be provided financial literacy sessions on how to manage his money and credit facilities.

6.3.5. Instant overdraft of Rs.5,000/- would be provided to him on completion of training. This OD facility would be covered by the Credit Guarantee Fund proposed to be created by the Govt. The Rate of Interest on these accounts is proposed @ Base rate +3% (out of this 1% is for the fees to be paid to Credit Guarantee fund and 1% to be paid to the BC for maintenance of the account).

- **Summary of Action Points**:
  - Identification of people without any bank account
  - Re-activation of dormant accounts
  - Opening of bank accounts at village level

6.4. Credit Guarantee Fund for credit in Basic banking accounts:

The fourth pillar of SVS is the Credit Guarantee Fund. As per RBI estimates, up to March 2013, 3.95 million Basic banking accounts availed Over draft facility of Rs.1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March, 2010). However, considering that 182 million such accounts were opened by March, 2013, the over draft facility has been availed in a very small fraction of these accounts. Reasons for this can be:

- ❖ Cap of Rs.2,500/- for each account that too on select basis.
- ❖ Perceived defaults in such accounts by Banks made them shy of lending.

6.4.1. Provision of Rs.5,000/- as instant overdraft immediately on completion of financial literacy session shall have multi dimensional benefits like:

6.4.1.1. Incentive for them to attend the financial literacy sessions.

6.4.1.2. This exigency fund shall be a great support for them in meeting out their basic needs like health, farming etc.,without having to go to the money lender.

6.4.1.3. Learning to manage this account shall be the first step to larger dosage of credit by creating their credit history. It shall help the banks also in Credit appraisal for his future needs.

6.4.2. The SVS proposes to create a credit guarantee fund with a corpus of Rs.1,000 crores to provide guarantee against defaults in over drafts in basic banking accounts. It is estimated that there are 182 million basic banking accounts and an overdraft of Rs. 5000 in each of these translates to a total of Rs.90,000 crores. Using a 1:20 leverage ratio we would need Rs.4500 crore over a period of time. Hence to begin with, it is proposed to start with a corpus of Rs.1000 crore. This corpus would be budget neutral for the Government of India and would be funded by the Financial Inclusion Fund (FIF) being maintained by NABARD.

- **Summary of Action Points**:
  - Micro Credit upto Rs.5,000/- to all basic banking accounts
  - Setting up the Credit Guarantee fund for micro credit

6.5. Micro Insurance:

The fifth pillar of SVS is to provide micro-insurance to the people. Insurance Regulatory and Development Authority (IRDA) has created a special category of insurance policies called micro-insurance policies to promote insurance coverage among economically vulnerable sections of society. The IRDA Micro-insurance Regulations, 2005 defines and enables micro-insurance. A micro-insurance policy can be a general or life insurance policy with a sum assured of Rs.50,000 or less.

6.5.1. A general micro-insurance product could be
  6.5.1.1. Health insurance contract
  6.5.1.2. Any contract covering belongings such as
    6.5.1.2.1. Hut
    6.5.1.2.2. Livestock
    6.5.1.2.3. Tools or instruments or
    6.5.1.2.4. Any personal accident contract
  6.5.1.3. They can be on an individual or group basis

6.5.2. A life micro-insurance product is:
  6.5.2.1. A term insurance contract with or without return of premium
  6.5.2.2. Any endowment insurance contract or
  6.5.2.3. A health insurance contract
  6.5.2.4. They can be with or without an accident benefit rider and
  6.5.2.5. Either on an individual or group basis

6.5.3. There is flexibility in the regulations for insurers to offer composite coverage or package products that include life and general insurance covers together. Micro- insurance business is done through the following intermediaries:

6.5.3.1. Non-Governmental Organisations

6.5.3.2. Self-Help Groups

6.5.3.3. Micro-Finance Institutions

6.5.3.4. Most of the entities appointed as BCs, including companies registered under Companies Act, have also been permitted by IRDA for appointment as MI agents to sell Micro-insurance products by a separate circular.

6.5.4. The micro-insurance portfolio has made steady progress. More and more life insurers have commenced their micro-insurance operations and many new products are being launched every year. The distribution network has also been considerably strengthened and the new business has shown a decent growth, although the volume is still small. Micro-insurance business is procured largely under the group portfolio. Life Insurance Corporation of India (LIC) contributes the most both in terms of policies sold and number of micro-insurance agents.

6.5.5. With the notification of the IRDA (Micro-insurance) Regulations 2005, by the Authority, there has been a steady growth in the design of products catering to the needs of the poor. The flexibilities provided in the Regulations allow the insurers to offer composite coverage or package products.

- **Summary of Action Points**:
  - Enabling the extension/distribution machinery to offer micro-insurance products and full coverage of scheme like Aam Admi Bima Yojna
  - Estimated target of 12 cr. families, 4.6 cr. covered

6.6. Unorganized sector Pension schemes like Swavlamban:

The sixth and final pillar of SVS relates to old age income security. To encourage workers in the unorganised sector to save voluntarily for their old age, an initiative called “Swavalamban Scheme”, a co-contributory pension scheme was launched on 26.09.2010, wherein the Central Government would contribute a sum of Rs.1000 per annum in each National Pension Scheme (NPS) account opened and having a saving of Rs.1,000 to Rs.12,000 per annum for a period not exceeding five years. The Scheme runs upto Financial Year 2016-17. Under the scheme, Government will contribute Rs.1,000 per year to each NPS account of eligible subscribers opened in the year 2009-10, 2010-11, 2011-12 and 2012-13 will get the benefit of Government co-contribution for five years. Subsequently, the benefit of Swavalamban Scheme reduces to four, three, two and one year to the subscribers enrolled during FY 2013-14 to FY 2016-17. The Scheme operates through 79 Aggregators appointed by the Pension Fund Regulatory and Development Authority (PFRDA), an authority constituted by the Government to implement NPS. A Total of 3,01,980 subscribers during 2010-11, 6,43,979 subscribers during 2011-12 and 11,01,079 subscribers during 2012-13 have been enrolled. During the financial year 2014-15, a total of 15,94,790 subscribers have been enrolled till 31st March, 2014.

- **Summary of Action Points**:
    - Use the extension/distribution mechanism for full coverage under pension scheme like Swavlamban
    - Estimated 35 cr. unorganised labour in the country, target of 6.1 cr. set. 15.94 lakhs subscribers enrolled till 31.03.2014

7. Administrative Structure for Monitoring:

7.1. Central Level:

7.1.1. Mission headed by the FM who will review the progress periodically; initially at quarterly interval and subsequently it can be six monthly. FM to give policy directions and will include Secretary (FS), Governor RBI, Chairman PFRDA, Chairman IRDA and Chairman IBA.

7.1.2. Executive Committee under the chairmanship of Secretary (FS) with Dy governor RBI, Representative of IRDA, PFRDA, IBA, Chairman of Insurance Companies and Banking Sector. This committee is to monitor implementation closely say at Quarterly interval.

7.1.3. Joint Secretary (FS) will be Mission Director. To head several operational level committees. These will have representatives from Banks, Insurance and pension companies, BSNL and other stake holders. To be assisted by Director (FI), Director (Insurance) and Director (Pension Reforms) as Additional Mission Directors.

7.2. State Level:

7.2.1. Principle Secretary (Finance) to be mission Director and constitution of State implementation Committee headed by PS (Finance) and members from State Head of Major Banks, MFI, Insurance, RBI, Insurance Company etc.

7.2.2. SLBC Convenor to be Secretary to the State Implementation Committee.

7.2.3. The committee to meet Quarterly preferably, immediately after the SLBC on the same day.

7.3. District Level:

7.3.1. District Collector to be Chairman for the District level implementation committee headed by senior most representative from banks, financial institution, insurance, MFI, etc.

7.3.2. LDM to act as Secretary to the implementation committee.

7.3.3. The committee to meet every month. The frequency could be even higher in the initial stage till creation of the infrastructure. Presence of DC - would be at least in one of the two consecutive meeting

8. Monitoring Mechanism/ MIS:

8.1. The portal created by DFS 'Financialservices.gov.in' for online monitoring the creation of BC agents in the field shall be the tool to ensure proper coverage of villages.

8.2. Each Bank to have a structured System generated MIS system to monitor the function of Business correspondents in the field. The format would be standardised across the system for ease and uniformity purposes.

8.3. This MIS would have a linkage with the nic portal for DFS i.e. 'Financialservices.gov.in'

9. Time Lines for Implementation:

❖ *Launch*	15^{th} Aug	2014
❖ *Formation of Committees*	2^{nd} Oct	2014
❖ *Coverage of SSAs*		
○ 80%	15^{th} Aug	2015

- 100% 31 March 2016

- *Opening of accounts*
  - 50% 31st March 2015
  - 75% 15th Aug 2015
  - 100% 31st March 2016

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