

National strategy for financial inclusion

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Source: *The Hindu*

Manifest pedagogy: The emphasis on digitalisation and cashless economy along with ease of access to formal sources of credit and social security to the last mile has driven a need for an agenda for financial inclusion strategy in India. It has many challenges such as geographical diversity, people's needs and perception and technology.

In news: RBI has released the National Strategy for Financial Inclusion (NSFI) for the period 2019-2024.

Placing it in syllabus: Financial inclusion in India

Static dimensions:

- The "100 small steps"
- Banking correspondent model

Current dimensions: National strategy for financial inclusion

Content: Financial inclusion has been defined as *"the process of ensuring access to financial services, timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost"*.

The "100 small steps":

- In **2007**, the then Deputy Chairman of the Planning Commission, Montek Singh Ahluwalia, drafted Raghuram Rajan to write a report proposing the next generation of financial sector reforms in India.
- The **committee**, put together and **chaired by Rajan**, **consisted of twelve members** from across the public and

private sectors.

- The **mandate** given was to take an overall view of the sector in making recommendations, highlighting links between needed reforms, while offering a consistent underlying approach.
- Accordingly, the committee submitted a **report titled “A Hundred Small Steps” in 2009.**
- It recommended **broad-based reforms across the financial sector**, stating that instead of focusing on a few large and politically controversial steps, India must “take a hundred small steps in the same direction”.

Banking/ Business correspondent model:

- RBI has allowed **banks to appoint entities and individuals called business correspondents (BCs)** as agents for providing basic banking services in remote areas where they can't practically start a branch.
- BCs are considered as practical solutions to **extend basic banking services to** the nearly 600000 **village habitations** in the country.
- As they enable a bank to provide its limited range of **banking services at low cost**, BCs are instrumental in **promoting financial inclusion.**



- The **products provided by BCs** are Small Savings Accounts, Fixed Deposit and Recurring Deposit with low minimum deposits, Remittance to any BC customer, Micro Credit and General Insurance.
- The BC model allows banks to provide **door-step delivery of services especially ‘cash in – cash out’ transactions** at a location much closer to the rural population, thus **addressing the last-mile problem.**
- NGOs/ MFIs, individuals like retired bank employees, retired government employees and ex-servicemen, individual owners of kirana / medical /Fair Price shops,

agents of Small Savings schemes of Government of India/Insurance Companies, authorized functionaries of well-run Self Help Groups (SHGs) which are linked to banks, other individuals including those operating Common Service Centres (CSCs) **are allowed to act as BCs of banks.**

National strategy for financial inclusion:

- The NSFI for India 2019-2024 has been prepared by RBI under the aegis of the **Financial Inclusion Advisory Committee.**
- It is based on the inputs and suggestions from Government of India and Financial Sector Regulators like SEBI, IRDA and PFRDA.
- It **aims to** strengthen the ecosystem for various modes of digital financial services in all Tier-II to Tier VI centres to create the necessary infrastructure to **move towards a less-cash society by March 2022.**

Strategic Pillars of NSFI:

1. **Universal Access to Financial Services:** Every village to have access to a formal financial service provider within a reasonable distance of 5 KM radius.
2. **Providing Basic Bouquet of Financial Services:** Every adult who is willing and eligible needs to be provided with a basic bouquet of financial services that include a Basic Savings Bank Deposit Account, credit, a micro life and non-life insurance product, a pension product and a suitable investment product.
3. **Access to Livelihood and Skill Development:** The new entrant to the financial system, if eligible and willing to undergo any livelihood/ skill development programme, may be given the relevant information about the ongoing Government livelihood programmes.
4. **Customer Protection and Grievance Redressal:** Customers shall be made aware of the recourse available for

resolution of their grievances. Adequate safeguards need to be ensured to protect the customer's Right to Privacy.

5. **Effective Coordination:** There needs to be a focused and continuous coordination between the key stakeholders.

Key recommendations:

Universal Access to Financial Services:

- The digital infrastructure in the country needs to be expanded through better networking of bank branches, BC outlets, Micro ATM, PoS terminals and stable connectivity etc...coupled with electricity.
- Coordination with various stakeholders needs to be promoted to ensure creation of the requisite infrastructure for moving towards completely digital onboarding of customers.
- Encourage adoption and acceptance for digital payments and bringing people into the fold of the formal financial system.

Providing Basic Bouquet of Financial Services:

- The banks may undertake periodic review of their existing products and adopt a customer centric approach while designing and developing financial products.
- Ensure efficient delivery by leveraging on Fin-tech and BC network.
- Initiate measures for capacity building of the BCs by encouraging and incentivizing them to acquire requisite certifications.

Access to Livelihood and Skill Development:

- There should be convergence of objectives of the National Rural Livelihood and Urban Livelihood Missions to deepen financial inclusion through an integrated approach.

Financial Literacy and Education:

- Customers need to be explained in simple language the nature of the product, its suitability to their requirements and the cost vis-à-vis return.
- Concerted efforts are needed to ensure coordination among the ground level functionaries like District Development Manager (DDM) of NABARD, District and Local administration, Block level officials, NGOs, SHGs, BCs, Farmers' Clubs, Panchayats, PACS, village level functionaries etc. while conducting financial literacy programmes.

Customer Protection and Grievance Redressal:

- To develop a portal to facilitate inter-regulatory coordination for redressal of customer grievances.

Effective Coordination:

- Leverage on the emerging developments in technology to promote effective stakeholder coordination by having in place a digital dashboard/ MIS monitoring.
- Encourage decentralized approach to planning and development by creating a forum to actively involve Gram Panchayats/ Civil Society/ NGOs to accelerate financial inclusion using various tools like social audit.