



*Financial Inclusion thru Savings and Retail
Banking – the Indian Experience*

Banking in India

- A hundred years old
- Response to emergent situations
- Public Policy
- Products and Programs
- Delivery systems and Delivery Institutions

India – the Banking System - 1969

Commercial banks	Public	Private	Total
Number of banks	8	81*	89
Total Branches	6,596	1,666	8,262
Rural Branches (% to total branches)	1,504 (23)	329 (20)	1,833 (22)
% share of agriculture in total credit	2.2	negligible	2.2

+ a large number of small sized cooperative banks

Measures for increasing banking outreach

- 70% population and 40% of GDP was depended on agriculture
- BUT, ONLY 2% BANK CREDIT WENT TO AGRICULTURE
- **Nationalization** of 14 Private Banks in 1969 (6 more in 1980) with mandate of **widening branch network** particularly in **rural** & remote areas
- **Priority Sector concept** for focused lending to core areas
- Programs focusing on **self-employment** for the poor

Measures for increasing banking outreach

By 1975, 10,882 rural branches of commercial banks opened

But, commercial banks were perhaps not the ideal solution for masses

Therefore, Regional Rural Banks (RRBs) established

- regulated mFIs with low capital of \$ 250,000
- ownership with government and a public bank
- top management from commercial bank
- all other staff local, qualified
- small area of operation (*serving 4 mil people*)

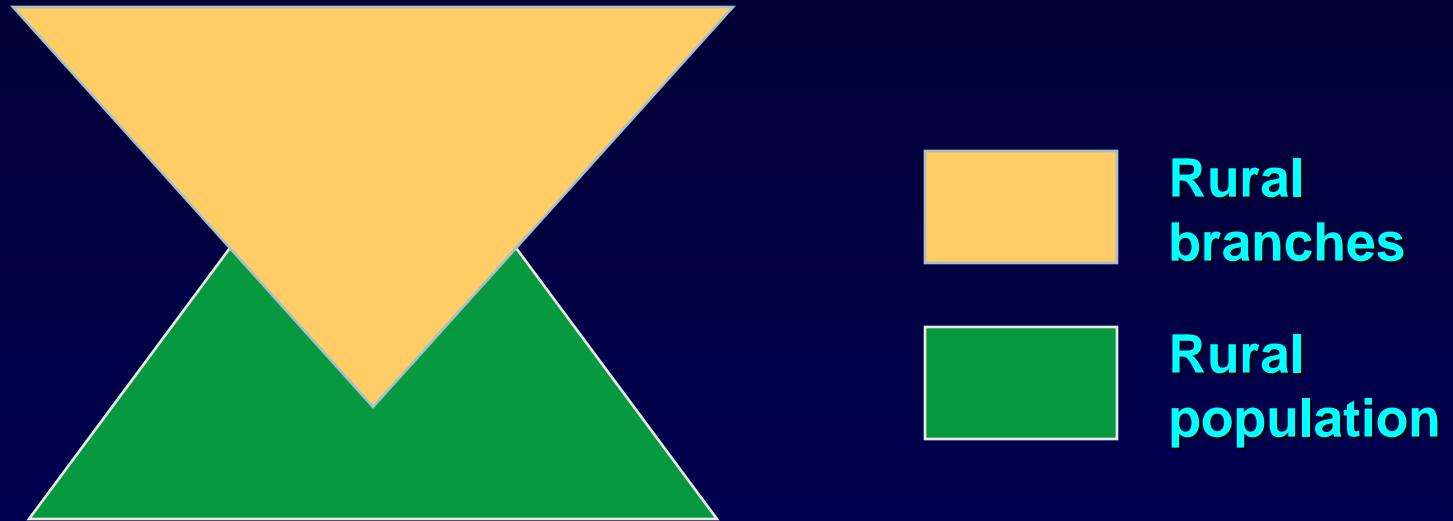
What did this bank network do ?

- **Savings products** – savings, recurring, term, flexible
- **Credit products** – 3 months to 15 years loans for . . .
crop production, storage and marketing of agri
produce, purchase of animals, land development,
farm machinery, plantation and horticulture crops,
fisheries, small business, transport vehicles,
artisans, tiny and village industries, etc.
- **Millions of such loans ! 94 million loan
accounts in 2007**
84 million loans of < \$ 500 at an average of \$ 250

What did this bank network do ? contd.

- interest rates of 10% to 15% p.a. on reducing balance method
- proposals appraised for their technical and financial feasibility
- expected incremental incomes formed the basis of most credit decisions
- no collateral for small loans

The Dilemma of the Inverted Pyramid



- Even after years of branch expansion and proactive policies 70% rural people were outside the banking fold !
- The smaller the households' assets, the smaller the reach of the banks !
- ⇒ What really was the reason ? What were the mismatches ??

Research and action research in mid '80s

- Systems and procedures are complicated, costly, and time consuming for both the clients and banks
 - Non interest costs MATTER !!
- The poor have tiny surpluses that get “lost”
- Savings and credit products did NOT meet the needs of the poor
- The dividing line between consumption and production is too thin !
- collective wisdom, peer pressure and community appraisal are a strong collateral substitute and monitoring mechanisms

Financial Inclusion thru SHGs ?

- ⇒ **Homogeneous** common problems, affinity, incomes, neighbourhood, livelihoods
- ⇒ **Small** 10 to 20, participative, meeting frequently, mutual trust, appreciation of others' view, transparent decisions
- ⇒ **Encourage thrift** simple accounting, pooled thrift is bankable, pooled thrift can be used to give loans for meeting emergent needs
- ⇒ **Poor learn** all resources have a cost, all needs cannot be met, appraisal, prioritisation, monitoring handling larger resources, handling resources NOT their own, financial discipline, accounting

Banking with SHGs

- Open savings account in the name of the informal entity called “SHG”
- Bank loans to the SHG as multiples of pooled thrift after 6 to 12 months after rating – the weak SHGs will have to wait !
- SHG decides on how to use the loan, and sets its own terms and conditions for its members
- Collateral free loan from bank at commercial rates of interest (presently around 9% to 13% p.a. on reducing balance)

Financial Inclusion thru SHGs

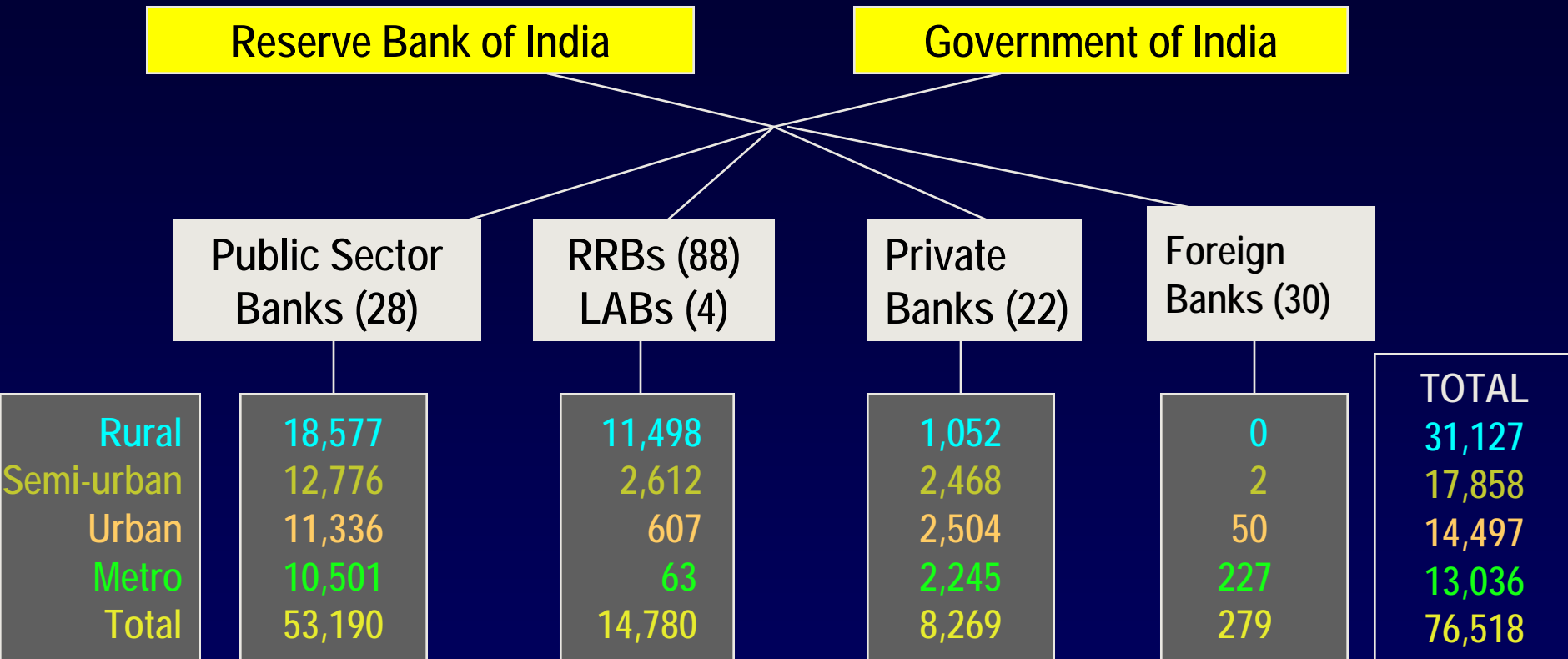
	Mar 93	Mar 96	Mar 02	Mar 04	Mar 08
• SHGs	255	4,757	4,61,478	1.1 mil	4.7 mil
• Families included	5,100	80,000	8 mil	17 mil	60 mil
• Savings of SHGs					: > \$ 840 mil
• Average savings per SHG					: \$ 168
• Loans in 2007-08					: > \$ 2 bil
• Average bank loan per SHG					: \$ 1,602

Measures for increasing banking outreach

- ➔ 1990 : Introduction of Service Area Approach
- ➔ Mid 90's :
 - Private equity in public banks
 - New private banks allowed
 - Local Area Banks (LABs) akin to RRBs allowed with private equity
- ➔ 2006 :
 - Reforms in cooperative banking
 - Business Correspondents and Business Facilitators encouraged
 - No-frills-savings accounts started with GCC

Bank network for inclusive growth

June 2008



+ the cooperative banks and almost 100,000 cooperatives linked to cooperative banks and now even commercial banks

Measures for increasing banking outreach

- ⇒ All governmental payments only through bank accounts
- ⇒ Business correspondents
 - Provide door-step cash-in cash-out facilities to bank's clients
 - NGOs, Cooperatives, Individuals, Post Offices
 - Use a variety of technological options
 - 16 million no-frills-accounts opened
- ⇒ \$ 10 mil Financial Inclusion Fund and \$ 10 mil Financial Inclusion Technology Fund set up
 - Financial literacy and financial counseling funded
 - Pilots of various technology options funded

Vision 2012

- Every person wishing to open a savings account with the banking system will have an option to do so in his or her own neighborhood
- Every no-frills account will have an overdraft facility thru a General Credit Card
- Business correspondents will support all transactions for deposits and withdrawals, loan disbursements and repayments and money transfers

Thank You

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