28th December 2015

TO ALL MEMBERS:

RBI released Report of the Committee on Medium-term Path on Financial Inclusion

The Reserve Bank of India has on December 28, 2015 released the Report of the Committee on Medium-term Path on Financial Inclusion.

The Salient recommendations of the report are:

- Banks have to make special efforts to step up account opening for females, and the Government may consider a deposit scheme for the girl child – Sukanya Shiksha - as a welfare measure.
- Given the predominance of individual account holdings (94 per cent of total credit accounts), a unique biometric identifier such as Aadhaar should be linked to each individual credit account and the information shared with credit information companies to enhance the stability of the credit system and improve access.
- To improve 'last mile' service delivery and to translate financial access into enhanced convenience and usage, a low-cost solution should be developed by utilisation of the mobile banking facility for maximum possible G2P payments.
- In order to increase formal credit supply to all agrarian segments, digitisation of land records is the way forward. This should be backed by an Aadhaar-linked mechanism for Credit Eligibility Certificates to facilitate credit flow to actual cultivators.
- To phase out the agricultural interest subvention scheme which has distorted the agricultural credit system and ploughing the subsidy amount into an affordable technology aided universal crop insurance scheme for marginal and small farmers for all crops with a monetary ceiling of Rs.200,000 at a nominal premium to end agrarian distress.
- A scheme of 'Gold KCC' (kisan credit card) with higher flexibility for borrowers with prompt repayment records, which could be dovetailed with a government-sponsored personal insurance, and digitisation of KCC to track expenditure pattern.
- Encourage multiple guarantee agencies to provide credit guarantees in niche areas for micro and small enterprises (MSEs), and explore possibilities for counter guarantee and re-insurance.
- Introduction of a system of unique identification for all MSME borrowers and sharing of such information with credit bureaus.
- Establishing a system of professional credit intermediaries/advisors for MSMEs to help both the sector banks in credit assessment.
- To further step up financing of the MSE Sector a framework for movable collateral registry may be introduced.
- Commercial banks may be enabled to open specialised interest-free windows with simple products like demand deposits, agency and participation certificates on the liability side and cost-plus financing and deferred payment, deferred delivery contracts on the asset side.
- An eco-system comprising multiple models should be encouraged with will foster partnerships amongst national full-service banks, regional banks of various types, NBFCs, semi-formal financial institutions, as well as the newly-licensed payments banks and small finance banks.
- Banks' business model to integrate Business Correspondents (BCs) with appropriate monitoring by designated link branches and greater mix of fixed location BC outlets to win the confidence of the common person.

- Introduction of a system of online registration of BCs, their training and monitoring their activity including delinquency, and entrusting more complex financial products such as credit to trained BCs with good track record.
- A geographical information system (GIS) to map all banking access points.
- To step up the self help group (SHG)-bank linkage programme (SBLP) initiated by NABARD with the help of concerned stakeholders including government agencies as a livelihood model.
- Corporates should be encouraged to nurture SHGs as part of their Corporate Social Responsibility (CSR) initiatives.
- Provision of credit history of all SHG members by linking with individual Aadhaar numbers to check over-indebtedness
- To restore tax-exempt status for securitisation vehicles for efficient risk transfer.
- More ATMs in rural and semi-urban centres, interoperability of micro ATMs and use of application-based mobiles as point- of- sale (PoS) for creating more touch points for customers.
- National Payments Corporation of India (NPCI) to develop a multi-lingual mobile application for customers who use non-smart phones, especially for users of national unified USSD platform (NUUP).
- Permit a small-value cash-out with adequate KYC along for non-bank prepaid payment instruments (PPIs) to incentivise usage.
- To allow PPI interoperability for non-banks.
- Levying a surcharge on credit card transactions by merchant establishments should not be allowed.
- Banks to complete the task of linking of deposit accounts with Aadhaar in a time bound manner so as to create the necessary eco-system for social cash transfer.
- Financial Literacy Centre (FLC) network to be strengthened to deliver basic financial literacy at the ground level. Banks to identify lead literacy officers to be trained by the Reserve Bank in its College of Agricultural Banking (CAB) who in turn could train the people manning the FLCs.
- The Reserve Bank to commission periodic dipstick surveys across states to ascertain the extent of financial literacy.
- All regulated entities should be required to put in place a technology-based platform for SMS acknowledgement and disposal of customer complaints.
- To strengthen the Information Monitoring System for District Consultative Committees (DCC) and State Level Bankers Committee (SLBC) deliberations.
- The responsibility of the SLBC/lead bank scheme to be rotated among to instil a spirit of competition.
- SLBCs to focus more on inter-institutional issues, livelihood models, social cash transfer, gender inclusion, Aadhaar seeding, universal account opening, and less on credit deposit ratio which is a by-product.
- As a part of second generation reforms, the government can replace the current agricultural input subsidies on fertilisers, power and irrigation by a direct income transfer scheme.

The full report of the committee on medium-term path on financial inclusion released by the RBI is available at the Chamber.

Eapen Kalapurakal
Secretary