

Critical Review of Financial Inclusion in

G20

Countries with Focus on India



Prepared by
Dr. Syed Mazher Hussain,
Executive Director, COVA and Director, State Bank of Hyderabad

Research Associate
Roberto G Lescrauwaet, New York University, Abu Dhabi

Research Assistant
M. Murali Krishna, Software Consultant

Financial Inclusion (FI) means:

- Ensuring delivery of financial services like bank accounts for savings and transactional purposes
- Low cost credit for productive, personal and other purposes,
- Financial advisory services,
- Insurance facilities (life and non-life)
- For all citizens- especially the poor and marginalised

FI broadens the resource base of financial systems

Inclusive and robust banking sector = developed economies

G 20 Countries: Comparative Analysis of Financial Inclusion

Developing Economies	Account at a formal financial institution (%)	Account at a formal financial institution, female (%)	Account at a formal financial institution, bottom 40% (%)
Argentina	33	32	23
Brazil	56	51	40
China	64	60	47
India	35	26	27
Indonesia	20	19	10
Mexico	27	22	12
Russia	48	48	40
Saudi Arabia	46	15	37
South Africa	54	51	41
Turkey	58	33	51
Mean percentage	44,1	35,7	32,8

Comparative Analysis of Financial Inclusion

Developed Economies	Account at a formal financial institution (%)	Account at a formal financial institution, female (%)	Account at a formal financial institution, bottom 40% (%)
Australia	99	99	98
Canada	96	97	93
France	97	97	96
Germany	98	99	98
Italy	71	64	68
Japan	96	97	95
Rep. of Korea	93	93	89
United Kingdom	97	98	96
United States	88	84	82
Mean percentage	92,78	92	90.56

India:

Status of Financial Inclusion:

Account at a formal financial institution (%): 35

Account at a formal financial institution, female (%): 26

Account at a formal financial institution, bottom 40% (%): 27

Initiatives and programs:

- Bank Correspondents
- Electronic Benefits Transfer
- No-Frills Accounts

Successes:

Bank Correspondents:
Electronic Benefits Transfer: I

India Cont.

No-Frills Accounts: Allows for basic facilities of deposit and withdrawals

Provides low cost access to bank accounts

Easing up of KYC rules, migrants and people without permanent residences can open bank accounts with less difficulties.

Challenges:

“The normal banking model has been found wanting

In terms of cost, scalability, reliability

To ensure that the banks give adequate attention to financial inclusion

As a viable business proposition and not a regulatory obligation

Banks alone are not sufficient

Need support of policymakers, regulators, governments, IT solution providers, media, Civil Society and the public at large can bring about a decisive metamorphosis in our journey towards universal financial inclusion

Saudi Arabia:

Status of Financial Inclusion:

Account at a formal financial institution (%): 46

Account at a formal financial institution, female (%): 15

Account at a formal financial institution, bottom 40% (%): 37

Initiatives and programs: The Islamic Development Bank (IDB)

Successes:

- It fights poverty and promotes economic development in Islamic country members.
- Promotes microfinance and poverty alleviation programs through its Islamic Solidarity Fund for Development (ISFD),.

Challenges:

- Lack of transparency has hit the financial sector in Saudi Arabia,
- Forcing millions of people to distrust the use of financial services.
- The poor representation of women in financial services is a major problem that needs to be tackled with financial education.
- Men have to be taught the importance of women having access to the financial sector.

United States:

Status of Financial Inclusion:

Account at a formal financial institution (%): 88

Account at a formal financial institution, female (%): 84

Account at a formal financial institution, bottom 40% (%): 82

Initiatives and programs:

Lifetime Savings Account

Individual Development Accounts

Successes:

Lifetime Savings Account: A savings account is opened for every child born after 31 December 2010.

The government would contribute US\$500 with an additional US\$500 extra for children born in families living under the national median income

Account holders can only access the account when they are 18 years old

Can only spend money on education until they are 25.

After that, they can only spend on home buying and retirement security.

US Contd..

Individual Development Accounts:

Individual Development Accounts (IDAs)

IDAs provide a 2:1 match for savings accumulated over two or three years.

Resources can be used for education, home buying and start-up of a business.”

Challenges:

- With the recent economic recession in US
- The population's trust in financial services has greatly decreased,
- People opting for closing accounts.
- There is need for greater financial education targeting the people affected by the recession and in low-income families.

G 20 Countries: Meta Analysis and Recommendations

- The overview of all the G 20 countries reveals that there are some Meta issues that are common to the member countries and it seems possible to address the issue of Financial Inclusion in all the G 20 countries through adoption of the following five strategies:
- Introduction of Financial Education as part of all school, college and adult literacy programs.
- OD facility to all citizens to tide over periods of financial stress and thereby eliminate necessity to approach informal finance and loan sharks.
- Dedicated staff in banks for Financial Inclusion and subsidy from the governments for social banking initiatives.
- Enlisting Para Banking entities like SHGs, Cooperatives, Post offices etc. for greater penetration into rural and remote areas.
- Enhance use of technology, especially internet and mobile to overcome constraints of large geographical areas.

India: Financial Inclusion

- Financial sector in India had a predominantly urban and industrial orientation even two decades after independence.
- Processes for Financial Inclusion started in mid 60s
- With a "socially coercive" licensing policy in 1970 that required banks and other financial institutions to set up large number of branches in rural and remote areas
- during 2001 to 2011 an additional 24 percent of Indians (or one fourth of the population) were able to get bank accounts
- Indians with access to formal financial institutions:
 - Urban areas: 67.8
 - Rural areas: 58.7.

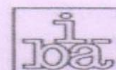
India: Financial Inclusion

- Banks were opening accounts and collecting deposits
- Not extending the required credit facilities to the poor
- Introduction of Priority Sector
- 40 percent of all their credit to the Agriculture and MSME (Micro, Small and Medium Enterprises) Sectors
- One percent of their total outstanding advances to people below poverty line as DRI Loans.
- Performance in 2013-14 in AP
- Loans Mandated Under DRI: Rs. 4,716.23 Crores
- Actual Loans given:Rs.102.75 Crores
 - Percentage: 0.02%

COVA Recommendations and Government's Response:

To: public.memberbanks@iba.org.in, private.memberbanks@iba.org.in,
cooperative.memberbanks@iba.org.in
From: Laxmi Pillai <lakshmipillai@iba.org.in>
Date: 09/05/2015 04:19PM
Cc: tanksale@iba.org.in, unni@iba.org.in, rema@iba.org.in, biswal@iba.org.in, nair@iba.org.in,
subodh@iba.org.in
Subject: Suggestions for Enhancing Financial Inclusion of Poor and Marginalised

(See attached file: Letter of COVA regarding suggestions for enhancing financial inclusion.pdf)



Indian Banks' Association

No. SB/Govt./Cir/

5th September, 2015

To:

The Chief Executives of Public Sector Banks

Dear Sirs / Madam,

Enhancing Financial Inclusion of Poor and Marginalised

– Request for your kind intervention to secure some policy and administrative changes by the

Govt. of India

We are in receipt of letter F.No. 8/57/2015-IF-II dated 25th August, 2015 from Govt. of India, Ministry of Finance attaching therewith a copy of letter of Confederation of Voluntary Association (COVA) seeking suggestions for enhancing Financial Inclusion (copy of the letter is enclosed for your ready reference).

We, therefore, request you to kindly provide us your expert comments by email to lakshmipillai@iba.org.in on or before 12th September, 2015 to enable us to prepare a consolidated report and forward to Ministry for perusal.

Thanking you,

Yours faithfully,

(Rema K Menon)

OSD-Corporate Communication & Social Banking

COVA Initiatives

Policy Transformations

Eight of Twelve Recommendations Accepted by GoI

- 1) Single Page Application Forms for small loans
- 2) Issue of receipt by banks for loan applications- Single Page Form with Receipt is attached and can also be downloaded from the website of the Department of Financial Services (DFS) at the following link:
<http://financialservices.gov.in/PMMY%20Form.pdf>
- 3) Revision of loan limit for petty business under DRI from 15,000 – now the loan limit is up to Rs 50,000 under the Shishu Scheme of MUDRA
- 4) Revision of Income Limit of Rs 18,000 for Rural areas and Rs. 24,000 for urban areas to qualify for petty loans- GoI has now removed the income criteria for availing loans under MUDRA
- 5) Over Draft facility of Rs. 5000 to the poor to meet emergencies- OD facility of Rs. 5000 announced under the Jan Dhan Scheme
- 6) Assigning and mandating individual bank branches to attain targets
- 7) Using Post Offices as Banking Correspondent to enable people to deposit and withdraw funds from their bank accounts
- 8) Waiving of condition to procure No Dues Certificates from 8 to 10 neighbouring banks.

Pilot for Credit Worthiness of Poor- SBH

Consolidated Statement of Loan Disbursal and Repayment in State Bank of Hyderabad up to 31st December 2015

Sl. No	Branch	Total No Application s	Gender & Community				Sanctione d	Amount Released	Rejected	In Proces s	Defaulters	Default Amount below 3months	Default Amount above 3months
			Male		Female								
			H	M	H	M							
1	Attapur	12	-	11	-	01	07	1,05,000	05	Nil	03	782	3002
2	Puranaphool	55	08	25	13	09	30	5,90,000	5	Nil	Nil	Nil	Nil
3	Hussanialam	58	11	47	-	-	58	8,85,000	Nil	Nil	02	940	3250
4	Dabeerpura	26	03	11	01	11	13	1,95,000	13	Nil	03	864	3675
5	Mogulpura	78	13	33	25	07	70	8,70,000	08	Nil	05	1607	4603
6	Charminar	141	-	-	69	72	141	30,40,000	Nil	Nil	Nil	Nil	Nil
7	Malakpet	48	01	15	24	08	31	4,65,000	Nil	Nil	Nil	Nil	Nil
8	Barkas	35	09	09	10	07	30	4,50,000	05	Nil	Nil	Nil	Nil
9	Saidabad	39	11	09	04	15	21	3,15,000	09	09	Nil	Nil	Nil
10	Ram nagar	12	-	-	10	02	06	90,000	06	Nil	Nil	Nil	Nil
11	West Marredpally	15	-	-	14	01	15	2,25,000	Nil	Nil	Nil	Nil	Nil
12	Ashoknagar	11	11	-	-	-	08	1,20,000	03	Nil	Nil	Nil	Nil
13	Sai ramnagar	06	03	-	03	-	-	-	-	06	Nil	Nil	Nil
	Total	536	70	160	173	133	430	73,20,000	54	15	13	4193	14530
			230		306								

Note On Advances and Repayments: State Bank of Hyderabad

- Total applications submitted: **536**
- Male: 230- Female: 306
- Hindu: 243- Muslim: 293
- No. of SBH Branches: 13
- Loans sanctioned (@ 10,000 & 15,000, 30,000, 40,000, 50,000): **430**
- Total loan amount released till 31st December 2015: **Rs.73,20,000**
- Loan defaulters in all the branches :13
- Total Loan default amount : **18723**
- Loan repayment rate : **99.74%**

Pilot for Credit Worthiness of Poor

- Details of Loan Applications – Sanctions – Repayments in Syndicate Bank up to 31th December 2015

SL. NO	BRANCH	TOTAL NO APPLICATIONS	MALE		FEMALE		SANCTIONS	AMOUNT RELEASED	REJECTED	IN PROCESS	Defaulters	Default Amount below 3months	Default Amount above 3months
			H	M	H	M							
1	Jahanuma	62	05	09	33	15	50	18,08,500	12	Nil	04	Nil	20,000
2	Bahadurpura	04	-	-	4	-	04	2,00,000	-	Nil	Nil	Nil	Nil
3	Shalialibanda	62	-	-	39	23	60	26,15,000	02	Nil	Nil	Nil	Nil
4	N.s. Road	10	-	-	10	-	10	3,90,000	-	Nil	Nil	Nil	Nil
5	Is sadan	38	01	09	07	21	34	9,70,000	04	Nil	Nil	Nil	Nil
6	Malakpet	12	-	-	01	11	07	1,05,000	05	Nil	Nil	Nil	Nil
7	Begumpet	15	-	-	01	14	04	60,000	11	Nil	Nil	Nil	Nil
8	Afzal gung	06	6	-	-	-	06	90,000	-	Nil	Nil	Nil	Nil
9	New nallakunta	09	-	-	09	-	07	1,05,000	02	Nil	Nil	Nil	Nil
	Total	218	12	18	104	84	180	63,43,500	36	Nil	04	Nil	20,000
			30		188								

Note On Advances and Repayments: Syndicate Bank

- Total applications submitted: **218**
- Male: 30- Female: 188
- Hindu: 116- Muslim: 102
- No. of Syndicate Branches: **9**
- Loans sanctioned (@ 1 lakh, 50k, 30k, 25k & 15k): **180**
- Total loan amount released : **Rs. 63,43,500**
- Loan defaulters in all the branches : **4**
- Total Loan default amount : **Rs.20,000/-**
- Loan repayment rate: **99.68 %**

From Interest to Banks To Interest from Banks

NPA Status

Core Capital: 25% Cap

Interest from Other Banks

- SBI
- Andhra Bank
- Other Districts
- Other States

Break Ke Baad!

